



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 2014**

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2014 together with the comparative figures for the corresponding year in 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31 December	
	Note	2014 HK\$'000	2013 HK\$'000
Turnover	(3)	1,183,786	1,488,282
Cost of sales		(1,297,045)	(1,705,842)
Gross loss		(113,259)	(217,560)
Other revenue		6,098	11,309
Selling and distribution expenses		(46,194)	(44,476)
Administrative expenses		(81,951)	(68,879)
Gain on disposal of interest in a joint venture		11,974	–
Gain on deemed disposal of interest in a joint venture	(11)	2,750	–
Gain on bargain purchase of interest in a subsidiary	(11)	24,225	–
Gain on disposal of interest in a subsidiary	(12)	76,961	–
Other net gain/(loss)		16,397	(52,649)
Loss from operations		(102,999)	(372,255)
Finance costs	(4)	(3,337)	–
Share of profits/(losses) of joint ventures		2,583	(8,200)
Loss before taxation	(5)	(103,753)	(380,455)
Income tax (charge)/credit	(6)	(2,612)	10,749
Loss for the year		(106,365)	(369,706)
Loss for the year attributable to:			
– Owners of the Company		(97,191)	(354,650)
– Non-controlling interests		(9,174)	(15,056)
		(106,365)	(369,706)
Loss per share	(8)	HK cents	HK cents
– Basic and diluted		(5.81)	(21.20)

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

	For the year ended	
	31 December	
	2014	2013
<i>Note</i>	HK\$'000	HK\$'000
Loss for the year	(106,365)	(369,706)
Other comprehensive (loss)/income 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	(25,383)	105,718
Exchange differences on translation of financial statements of joint ventures	(816)	3,312
Fair value gain on available-for-sale equity securities	7,600	160
Release of translation reserve upon disposal of interest in a joint venture	(2,399)	–
Release of translation reserve upon deemed disposal of interest in a joint venture	(11) (8,706)	–
Release of translation reserve upon disposal of interest in a subsidiary	(12) (17,982)	–
Total other comprehensive (loss)/income for the year	(47,686)	109,190
Total comprehensive loss for the year	(154,051)	(260,516)
Total comprehensive loss for the year attributable to:		
– Owners of the Company	(143,883)	(246,797)
– Non-controlling interests	(10,168)	(13,719)
	(154,051)	(260,516)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2014	2013
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note</i>		
Non-current assets			
Goodwill		–	–
Property, plant and equipment		624,116	490,781
Prepaid lease payments on land under operating leases		182,725	183,844
Interests in joint ventures		–	105,087
Available-for-sale equity securities		17,280	9,680
Deferred tax assets		5,465	4,749
Other non-current asset		19,222	19,288
		848,808	813,429
Current assets			
Prepaid lease payments on land under operating leases		4,651	4,587
Inventories		474,341	567,908
Trade and other receivables	(9)	439,782	510,922
Prepayments and deposits		59,273	48,919
Tax recoverable		3,010	2,774
Restricted bank deposits		3,296	–
Cash and cash equivalents		1,386,003	1,369,054
		2,370,356	2,504,164
Current liabilities			
Trade payables	(10)	91,119	103,652
Accruals and other payables		95,430	25,650
Amounts due to directors		2,313	1,557
Tax payable		2,976	4,938
		191,838	135,797
Net current assets		2,178,518	2,368,367

	As at 31 December	
	2014	2013
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets less current liabilities	3,027,326	3,181,796
Non-current liabilities		
Deferred tax liabilities	5,982	6,401
NET ASSETS	<u>3,021,344</u>	<u>3,175,395</u>
CAPITAL AND RESERVES		
Share capital	167,264	167,264
Reserves	2,827,708	2,971,591
Equity attributable to owners of the Company	2,994,972	3,138,855
Non-controlling interests	26,372	36,540
TOTAL EQUITY	<u>3,021,344</u>	<u>3,175,395</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL 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 2013, except for the new standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants which are effective for accounting periods beginning on or after 1 January 2014. The application of these new standards, amendments and interpretations has no material impact on the results and the financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

2. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to Chief Executive Officer, who has been identified as the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments as follows:

Rare Earth: Manufacture and sales of rare earth products (including fluorescent products)

Refractory: Manufacture and sales of refractory products (including high temperature ceramics products and magnesium grains)

(a) Segment revenue and results

	Rare Earth		Refractory		Total	
	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE						
Revenue from external customers	842,628	1,090,092	341,158	398,190	1,183,786	1,488,282
Inter-segment revenue	44	17	-	-	44	17
Reportable segment revenue	<u>842,672</u>	<u>1,090,109</u>	<u>341,158</u>	<u>398,190</u>	<u>1,183,830</u>	<u>1,488,299</u>
RESULTS						
Reportable segment (loss)/profit	<u>(121,505)</u>	<u>(404,561)</u>	<u>28,353</u>	<u>25,415</u>	<u>(93,152)</u>	<u>(379,146)</u>

(b) **Geographical information**

Revenue from external customers:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
The People's Republic of China (the "PRC")	888,541	1,193,186
Japan	107,237	116,030
Europe	67,037	136,295
The United States of America	61,504	34,338
Others	59,467	8,433
	1,183,786	1,488,282

3. TURNOVER

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Sales of rare earth products (including fluorescent products)	842,628	1,090,092
Sales of refractory products (including high temperature ceramics products and magnesium grains)	341,158	398,190
	1,183,786	1,488,282

4. FINANCE COSTS

Finance costs represented interest expenses on bank borrowings wholly repayable within five years.

5. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Depreciation of property, plant and equipment	80,688	69,188
Amortisation of prepaid lease payments on land under operating leases	4,791	4,512
Amortisation of intangible assets	–	12,792
Impairment loss on intangible assets	–	31,848

6. INCOME TAX (CHARGE)/CREDIT

Income tax (charge)/credit for the year comprises:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Current tax – PRC Enterprise Income Tax		
– Provision for the year	(1,878)	(7,068)
– Over/(under)-provision in prior years	308	(347)
	<u>(1,570)</u>	<u>(7,415)</u>
Deferred taxation		
– Origination and reversal of temporary differences	(1,042)	18,164
	<u>(2,612)</u>	<u>10,749</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 years ended 31 December 2014 and 2013 are wholly set off by 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 for the year. Among which two subsidiaries are entitled to a preferential income tax rate of 15%.

7. DIVIDEND

No final dividend for previous year was declared and paid during the year ended 31 December 2014 (2013: Nil).

No final dividend was proposed for the year ended 31 December 2014 (2013: Nil).

8. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$97,191,000 (2013: HK\$354,650,000) and the weighted average number of approximately 1,672,643,000 (2013: 1,672,643,000) ordinary shares in issue during the year ended 31 December 2014.

Diluted loss per share equals to the basic loss per share as the Company has no dilutive potential ordinary share outstanding during the years ended 31 December 2014 and 2013.

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:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade debtors and bills receivables	360,259	380,441
Amounts due from joint ventures	–	65,468
Amount due from a related company	5,621	–
Other receivables	9,787	9,273
Other tax refundable	64,115	55,740
	<u>439,782</u>	<u>510,922</u>

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Less than 6 months	253,291	345,994
6 months to less than 1 year	99,690	28,344
1 year to less than 2 years	18,951	13,621
Over 2 years	29,247	29,811
	<u>401,179</u>	<u>417,770</u>
Less: Impairment loss on trade debtors and bills receivables	(40,920)	(37,329)
	<u>360,259</u>	<u>380,441</u>

10. TRADE PAYABLES

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Less than 6 months	81,729	96,092
6 months to less than 1 year	4,957	3,167
1 year to less than 2 years	1,109	2,170
Over 2 years	3,324	2,223
	<u>91,119</u>	<u>103,652</u>

11. ACQUISITION OF A SUBSIDIARY

On 27 September 2013, the Group entered into an agreement to acquire the remaining 50.1% equity interest in Yixing Silver Mile Fluorescent Materials Co., Ltd. (“Yixing Silver Mile”) at a cash consideration of approximately HK\$15,133,000. The acquisition was completed on 22 January 2014 and subsequent to the acquisition, the Group’s equity interest in Yixing Silver Mile increased from 49.9% to 100%. Details of the acquisition are as follows:

- (a) Fair value of the net assets recognised at the date of acquisition:

	<i>HK\$’000</i>
Property, plant and equipment	155,491
Prepaid lease payments on land under operating leases	11,048
Deferred tax assets	3,978
Inventories	38,504
Trade and other receivables	79,250
Cash and cash equivalents	3,971
Trade and other payables	(128,603)
Bank borrowings	(85,079)
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Fair value of the net assets recognised	78,560
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- (b) Gain on deemed disposal of interest in a joint venture:

	<i>HK\$’000</i>
Fair value of 49.9% equity interest previously held	39,202
Less: Carrying value of 49.9% equity interest previously held	(45,158)
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Loss from re-measurement of interest	(5,956)
Add: Release of translation reserve upon deemed disposal of interest in a joint venture	8,706
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Gain on deemed disposal of interest in a joint venture	2,750
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- (c) Gain on bargain purchase of interest in a subsidiary:

	<i>HK\$’000</i>
Consideration transferred:	
– Cash consideration paid	15,133
– Fair value of 49.9% equity interest previously held	39,202
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	54,335
Less: Net assets acquired	(78,560)
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Gain on bargain purchase of interest in a subsidiary	24,225
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12. DISPOSAL OF A SUBSIDIARY

On 17 November 2014, the Group entered into an agreement to dispose of its 100% equity interest in Heping County Dongye Rare Earth Company Limited, a non wholly-owned subsidiary of the Group, at a cash consideration of approximately HK\$161,759,000. The transaction was completed on 28 November 2014. Gain on disposal of interest is as follows:

	<i>HK\$'000</i>
Cash consideration received	161,759
Less: Net assets disposed of	(102,780)
Add: Release of translation reserve upon disposal of interest in a subsidiary	17,982
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Gain on disposal of interest in a subsidiary	76,961
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13. COMMITMENTS

At 31 December 2014, the Group had capital commitments authorised and contracted but not provided for in the consolidated financial statements as follows:

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Acquisition and construction of property, plant and equipment	10,705	12,399
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14. LITIGATION

At 31 December 2014, there was still no final judgment on the following disputes involving a subsidiary of the Group and a contractor about the quality and settlement of certain plant constructed:

- (a) The contractor claimed the subsidiary for settling the remaining contract fee unpaid of approximately HK\$34,854,000 (2013: HK\$34,973,000) for the plant constructed.
- (b) The subsidiary claimed the contractor for returning the contract fee paid of approximately HK\$62,426,000 (2013: HK\$62,639,000) for poor construction quality that cannot meet the relevant construction standards.

FINANCIAL RESULTS

For the financial year ended 31 December 2014, the Group recorded a turnover of approximately HK\$1,183,786,000, a drop of approximately 20% when compared to HK\$1,488,282,000 in 2013. For rare earth products, as weak demand persisted and the market remained under pressure, both prices and sales volume decreased during the year. Turnover was approximately HK\$842,628,000, representing a reduction of approximately 23% when compared to HK\$1,090,092,000 last year, and accounting for approximately 71% of the Group's total turnover. As for refractory material products, due to keen market competition, turnover for the year continued to drop to approximately HK\$341,158,000 from HK\$398,190,000 last year, representing a decrease of approximately 14% and accounting for 29% of the total turnover. Overall gross loss margin was about 10%, representing an improvement when compared to the gross loss margin of about 15% in 2013.

The Group has recorded gains of approximately HK\$26,975,000 and HK\$11,974,000 through the equity interest transactions of its two joint ventures – acquisition of Yixing Silver Mile Fluorescent Materials Company Limited (“Yixing Silver Mile”) (previously known as OSRAM (China) Fluorescent Materials Co., Ltd.) and disposal of Yixing AGC Ceramics Co., Ltd. (“Yixing AGC”) respectively. In addition, the Group has also recorded a gain of approximately HK\$76,961,000 through the disposal of its equity interest in a subsidiary – Heping County Dongye Rare Earth Company Limited (“Dongye Rare Earth”). After deducting income tax of approximately HK\$2,612,000, the Group's net loss for the year amounted to approximately HK\$106,365,000, that further narrowed from the net loss of approximately HK\$369,706,000 last year. Loss per share decreased to approximately HK5.81 cents (2013: loss per share of HK21.20 cents).

FINAL DIVIDEND

As the Group continued to record losses, the Board did not recommend the payment of a final dividend for 2014.

ANNUAL GENERAL MEETING

The 2015 Annual General Meeting will be held on 5 June 2015 (Friday). A notice convening the annual general meeting 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 2 June 2015 to 5 June 2015, 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 forthcoming annual general meeting, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 1 June 2015 for registration of the relevant transfer.

BUSINESS REVIEW

Rare Earth Business

Turnover of the Group's rare earth business decreased by approximately 23% to approximately HK\$842,628,000 from approximately HK\$1,090,092,000 last year. Gross loss margin was around 19%.

In 2014, the price of rare earth products trended downward amidst the fluctuating rare earth market. Despite the prices of selected products indicated signs of a modest pick-up in the first half of the year, the prices of most products showed a downward trend in the second half. The average selling prices of lanthanum oxide, cerium oxide, europium oxide, yttrium oxide, holmium oxide and yttrium-europium coprecipitates in 2014 dropped by approximately 30% to 50% when compared to that of last year, while those of terbium oxide, dysprosium oxide and erbium oxide declined by approximately 10%. The average selling prices of neodymium oxide and praseodymium-neodymium oxide remained basically the same when compared to last year, while that of praseodymium oxide rose by approximately 40%. Since the drop of overall prices was milder when compared to that of 2013, segmental loss narrowed when compared to that of 2013 and gross loss margin also decreased. Moreover, the Chinese government has introduced the policy of the rare earth hoarding plan. During the year, the Group sold some products commanding relatively higher prices such as lutetium oxides, dysprosium oxide, terbium oxide and praseodymium-neodymium oxide. Among these products, lutetium oxides had been stored for many years and their cost had been written off in the financial accounting previously. As such, its sales amounting to more than HK\$80,000,000 was fully reflected as net profit during the year. However, due to the sluggish market conditions, the Group's rare earth business continued to report a loss.

In respect of sales volume, the Group sold approximately 3,700 tonnes of rare earth oxides, a decrease of around 16% when compared to approximately 4,400 tonnes sold last year.

As for costs, the change in the price of rare earth minerals was relatively stable during the year, which showed a deviation of less than 10% on average when compared to that of 2013, while the increase in average per capita wage boosted the cost of labour.

Despite the Group's polishing powder production line commenced trial production in 2013, no significant profit contribution was recorded. It was mainly because of that the existing technology specification was not advanced in catching up the changing needs of the market. Consequently, the volume of orders was not yet met the expectation. In light of this, the Group boosted its research and development efforts in a bid to cope with the market needs and gain a larger market share.

Regarding fluorescent materials, after the completion of the acquisition of 50.1% equity interest of Yixing Silver Mile from OSRAM GmbH in January 2014, it has become the Group's wholly-owned subsidiary. Subsequent to the acquisition, such company had sold approximately 370 tonnes of products in 2014. Due to the declining product price trend, the average selling price of the products decreased by approximately 30% to 40% when compared to that of 2013. As a result, the business recorded a gross loss of less than 10%.

As for the rare earth metals division, ancillary support such as development plan and electricity supply of the place where Dongye Rare Earth, the Group's former subsidiary, located was not consistent with the company's development needs. Its recent business performance and the market demand were also unsatisfactory. Therefore, the Group determined to dispose its entire equity interest in the company and the transaction was completed at the end of November 2014. The company sold less than 100 tonnes of rare earth metals products before disposal. Its gross loss margin was less than 10%. After the disposal of the company, the Group continues to monitor the development of the market and may seek other locations in order to develop the rare earth metals business again when market conditions improve.

Geographically, PRC remained as the major market of the Group's rare earth products, accounting for around 73% of total sales. For overseas markets, Europe and the US markets accounted for around 8% and 7% respectively. Affected by the persistently weak economic environment, Japan market accounted for only around 5%. During the year, the Group also delivered some of the products to other regions such as Korea, India and Vietnam.

Refractory Materials Business

During 2014, the Group's refractory materials business reported an overall turnover of approximately HK\$341,158,000, representing a decrease of around 14% from HK\$398,190,000 last year. Gross profit margin was around 13%.

The slower economic growth in the PRC, the unstable property market conditions and overcapacity in the steel, cement and glass industries and the keen competition in the refractory materials industry have continuously dragged down the sales volume of the Group's refractory materials. During the year, the Group sold around 25,000 tonnes of ordinary refractory materials and high temperature ceramics products, a decline of about 12% when compared to last year. The average selling price of major products such as fused magnesium chrome bricks, alumina-graphite bricks and Sialon series of high temperature ceramics products remained basically flat while the average selling price of unshaped refractory materials increased by around 5%. As for raw materials, their price remained relatively flat when compared to that of last year. For example, the average selling price of silicon carbide during the year changed less than 5% when compared to that of last year. Gross profit margin remained at around 11%.

Regarding the magnesium grain business, the average selling price of the magnesium grain products in 2014 remained similar to that of 2013 with a deviation within 5%. However, since the Group has conducted renovation and maintenance works for the production facility of high purity magnesium grain, the production was suspended for two months, leading to a drop in overall production volume of high purity magnesium grain. In 2014, the Group sold around 63,000 tonnes of magnesium grain products only, a decrease of approximately 20% when compared to 2013. Gross profit margin declined to around 13%.

By market segments, the decrease in domestic sales was larger than that in overseas markets. Thus, the proportion of the domestic sales business dropped slightly to around 80% while sales to overseas markets, mainly Japan, occupied larger proportion of approximately 20%.

Equity Interest Transactions

During the year under review, the Group completed three equity interest transactions.

The Group has entered into an agreement with OSRAM GmbH in September 2013. Pursuant to the agreement, the counter party agreed to sell its 50.1% equity interest in Yixing Silver Mile to the Group at a price of approximately HK\$15,133,000, thereby turning Yixing Silver Mile from a 49.9% owned joint venture into a wholly-owned subsidiary of the Group. The transaction was completed on 22 January 2014. After assessment, the fair value of the net assets of the company as at the completion date of the transaction was approximately HK\$78,560,000. The acquisition brought a gain of approximately HK\$26,975,000 to the Group. After the transaction was completed, the Group has full control over the company's business and continued to sell some of its fluorescent materials products to OSRAM Group.

Moreover, the Group sold 40% equity interest in Yixing AGC, another joint venture of the Group, to the joint venture partner Asahi Glass Ceramics Co., Ltd. from Japan in July 2014. The transaction amount was HK\$71,300,000, equivalent to the Group's original investment cost. The transaction was completed on 1 August 2014. The loss accumulated by the company since its establishment in 2011 until the disposal transaction had been included in the Group's consolidated financial statements in the past financial years according to the shareholding proportion, thus the disposal transaction has returned a gain of around HK\$11,974,000 during the year. Subsequent to the completion of the transaction, the Group has continued the cooperation with the company including the sales of products.

On the other hand, the Group sold all its equity interest held in the former subsidiary Dongye Rare Earth at a consideration of approximately HK\$161,759,000 in November 2014. The disposal price was slightly higher than the original acquisition cost that the Group had paid in 2008. In previous years, the Group had written off the goodwill and intangible assets of more than HK\$100,000,000 in its financial statements, which was assessed when the company was acquired. The disposal transaction was completed on 28 November 2014. The transaction brought a gain of around HK\$76,961,000 to the Group. The Group intends to monitor the development opportunities of the rare earth metals business after the disposal.

PROSPECTS

Looking ahead, the rare earth market in China remains challenging. After the World Trade Organisation's ruling in 2014 that PRC's rare earth export violated its regulations, the Ministry of Commerce abolished the rare earth export quota system in January 2015. The taxation on the export of rare earth products is expected to be eliminated in mid-2015. Meanwhile, the PRC government is considering the introduction of new method to levy rare earth resource tax according to the price of rare earth resources rather than volume. As such, it is expected that the rare earth resource tax would increase substantially while it would also act to protect such strategic resources. The PRC government is also formulating measures to regulate and consolidate the rare earth industry, including countering the illegal activities in the industry and working on a restructuring plan for six large rare earth enterprises. Along with the official setting up of the China South Rare Earth Group in March, these measures would help to optimise the regulation and management of the PRC's rare earth industry as well as expedite its consolidation. Guided by the national policies, the rare earth industry in the PRC is expected to continue a more orderly and healthier development in the long term. However, it will take some time before the results of the policies implemented become evident and the market would likely remain unstable for the short term. In the year ahead, the prices of rare earth are expected to fluctuate and the demand of the products will remain weak amidst uncertain economic prospects. However, the management team will continue to strive diligently for better results.

In addition, due to the sluggish economy, the Group's refractory materials business is facing difficulties in gaining growth momentum over the near term. For the time being, the Group is striving to enhance its competitiveness so as to achieve stable sales and maintain profit. To cope with the demand of the market, the Group is adjusting the existing sales model and strengthening the development in the areas of ancillary service support and project contracting.

While the industry is waiting for the implementation of government policies and the changes in the markets, the Group is proactively improving its position to cope with challenges. It is optimising its production operating system, upgrading its production equipment and enhancing its production technologies to achieve a high quality and large volume output, with the aim to realise economies of scale.

On the other hand, the Group plans to penetrate into upstream resources business so as to realise vertical integration for its long-term stable development. Regarding the rare earth business, although the Group cannot engage in the rare earth mining business in the PRC due to regulations, it is looking for suitable rare earth resources in overseas regions so as to prepare for future reforms of the industry. As for the refractory materials business, the Group is studying the feasibility of investing in mining of magnesium ore in the PRC in order to generate greater economies of scale resulting from sharing of internal resources and boost the Group's profitability.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has continued to maintain prudent capital arrangements, and has sufficient cash on hand. Subsequent to the acquisition of Yixing Silver Mile, the Group repaid the bank loan booked by the company. As at 31 December 2014, the Group had cash and bank balances including restricted bank deposits amounted to approximately HK\$1,389,299,000. The Group had a balance of net current assets amounted to approximately HK\$2,178,518,000, with the total liabilities to total assets ratio at around 6%.

The Group had no charge on assets, nor has it held any financial derivative products. It was not exposed to any material interest rate risk. As for foreign exchange, most of the Group's assets, liabilities and transactions are denominated in Renminbi, and the rest are in the US dollars or Hong Kong dollars. The exchange rates of these currencies have been stable.

STAFF AND REMUNERATION

As at 31 December 2014, the Group had a workforce of approximately 1,000 including university graduates and experienced professionals. The Group provided a comprehensive staff remuneration and welfare system for all of its employees. During the year, the Group spent approximately HK\$74,434,000 on staff costs, including directors' emoluments. It also provided regular on-the-job training and study opportunities to employees to assist them in maintaining professional standards.

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 2014.

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 2014.

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 2014, 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 the directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2014.

MEMBERS OF THE BOARD

As at the date of this announcement, the Board consists of Mr. Jiang Quanlong, Ms. Qian Yuanying 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
Jiang Quanlong
Chairman

Hong Kong, 26 March 2015