



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 : 00769

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PRASEODYMIUM

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NEODYMIUM

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PROMETHIUM

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CERIUM

Interim Report  
2023

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## Corporate Information

### DIRECTORS

#### *Executive Directors*

Ms. Qian Yuanying (*Chairman*)  
Mr. Jiang Quanlong  
Mr. Jiang Dawei  
Mr. Jiang Cainan

#### *Independent Non-executive Directors*

Mr. Huang Chunhua  
Mr. Jin Zhong  
Mr. Dou Xuehong

### AUDIT COMMITTEE

Mr. Huang Chunhua (*Chairman*)  
Mr. Jin Zhong  
Mr. Dou Xuehong

### REMUNERATION COMMITTEE

Mr. Dou Xuehong (*Chairman*)  
Mr. Huang Chunhua  
Mr. Jin Zhong

### NOMINATION COMMITTEE

Mr. Jin Zhong (*Chairman*)  
Mr. Huang Chunhua  
Mr. Dou Xuehong

### COMPANY SECRETARY

Mr. Law Lap Tak (*Resigned on 1 August 2023*)  
Ms. Ng Wing Man (*Appointed on 1 August 2023*)

### REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Dingshu Town, Yixing City  
Jiangsu Province, the PRC

### PLACE OF BUSINESS IN HONG KONG

Unit 1011, 10/F, Harbour Crystal Centre  
100 Granville Road, Tsim Sha Tsui  
Kowloon, Hong Kong

### HONG KONG LEGAL ADVISERS

Chiu & Partners

### AUDITOR

Ascenda Cachet CPA Limited

### PRINCIPAL BANKERS

#### *PRC*

China Construction Bank Corporation  
China Merchants Bank Company Limited  
China Bank of Communications Company Limited  
Agricultural Bank of China Limited  
Bank of China Limited

#### *Hong Kong*

China CITIC Bank International Limited  
BNP Paribas  
Bank of China (Hong Kong) Limited  
Nanyang Commercial Bank, Limited

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited  
Suite 3204, Unit 2A  
Block 3, Building D  
P.O. Box 1586  
Gardenia Court, Camana Bay  
Grand Cayman KY1-1110  
Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### INTERNET WEBSITE

[www.creh.com.hk](http://www.creh.com.hk)

### STOCK CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

769

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2023 together with the comparative figures for the corresponding period in 2022 as follows:

## Condensed Consolidated Statement of Profit or Loss

	Note	For the six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
<b>Revenue</b>	(2)	375,822	400,403
Cost of sales		(467,584)	(355,874)
<b>Gross (loss)/profit</b>		(91,762)	44,529
Other income		1,588	2,753
Selling and distribution expenses		(5,742)	(5,408)
Administrative expenses		(23,468)	(18,298)
Other net loss		(15,882)	(10,515)
<b>(Loss)/profit from operations</b>		(135,266)	13,061
Finance costs	(3)	(151)	(105)
<b>(Loss)/profit before taxation</b>	(4)	(135,417)	12,956
Income tax charge	(5)	(116)	(1,857)
<b>(Loss)/profit for the period</b>		(135,533)	11,099
<b>(Loss)/profit for the period attributable to:</b>			
Owners of the Company		(129,390)	11,396
Non-controlling interests		(6,143)	(297)
		(135,533)	11,099
<b>(Loss)/earnings per share</b>			
Basic and diluted	(7)	HK(5.53) cents	HK0.49 cents

## Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
<b>(Loss)/profit for the period</b>	(135,533)	11,099
<b>Other comprehensive loss for the period</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of foreign operations	(65,648)	(122,809)
<b>Total comprehensive loss or the period</b>	(201,181)	(111,710)
<b>Total comprehensive loss for the period attributable to:</b>		
Owners of the Company	(195,488)	(111,028)
Non-controlling interests	(5,693)	(682)
	(201,181)	(111,710)

## Condensed Consolidated Statement of Financial Position

	Note	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
<b>Non-current assets</b>			
Goodwill		–	–
Property, plant and equipment	(8)	143,706	164,273
Right-of-use assets		84,359	88,741
Deferred tax assets		6,486	6,813
		234,551	259,827
<b>Current assets</b>			
Inventories		277,419	191,410
Trade and other receivables	(9)	490,547	492,031
Prepayments and deposits		38,942	13,065
Tax recoverable		1,241	911
Cash and cash equivalents		1,177,470	1,452,386
		1,985,619	2,149,803
<b>Current liabilities</b>			
Trade payables	(10)	88,074	84,631
Accruals and other payables		39,449	37,123
Amounts due to directors		8,732	7,505
Lease liabilities		381	371
Tax payable		2,414	2,544
		139,050	132,174
<b>Net current assets</b>		1,846,569	2,017,629
<b>Total assets less current liabilities</b>		2,081,120	2,277,456
<b>Non-current liabilities</b>			
Lease liabilities		827	1,020
<b>NET ASSETS</b>		2,080,293	2,276,436
<b>CAPITAL AND RESERVES</b>			
Share capital		234,170	234,170
Reserves		1,863,201	2,053,651
<b>Equity attributable to owners of the Company</b>		2,097,371	2,287,821
<b>Non-controlling interests</b>		(17,078)	(11,385)
<b>TOTAL EQUITY</b>		2,080,293	2,276,436

## Condensed Consolidated Statement of Changes in Equity

	Equity attributable to owners of the Company									
	Share capital	Share premium	Capital reserve	Statutory reserves	Translation reserve	Share option reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2022	234,170	2,093,306	22,348	232,253	478,687	-	(179,403)	2,881,361	8,887	2,890,248
Profit for the period	-	-	-	-	-	-	11,396	11,396	(297)	11,099
<b>Other comprehensive loss</b>										
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(122,424)	-	-	(122,424)	(365)	(122,809)
<b>Total comprehensive loss for the period</b>	-	-	-	-	(122,424)	-	11,396	(111,028)	(682)	(111,710)
At 30 June 2022	234,170	2,093,306	22,348	232,253	356,263	-	(168,007)	2,770,333	8,205	2,778,538
At 1 January 2023	234,170	2,093,306	22,348	232,253	257,484	959	(552,699)	2,287,821	(11,385)	2,276,436
Loss for the period	-	-	-	-	-	-	(129,390)	(129,390)	(6,143)	(135,533)
<b>Other comprehensive loss</b>										
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(66,098)	-	-	(66,098)	450	(65,648)
<b>Total comprehensive loss for the period</b>	-	-	-	-	(66,098)	-	(129,390)	(195,488)	(5,693)	(201,181)
Lapse of share options	-	-	-	-	-	(286)	286	-	-	-
Recognition of equity-settled share-based payments	-	-	-	-	-	5,038	-	5,038	-	5,038
At 30 June 2023	234,170	2,093,306	22,348	232,253	191,386	5,711	(681,803)	2,097,371	(17,078)	2,080,293

### Note:

Under the Companies Act of the Cayman Islands, the share premium account is distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

## Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
<b>Operating activities</b>		
Cash used in operations	(238,109)	(142,859)
Income tax paid	(492)	(4,660)
<b>Net cash used in operating activities</b>	<b>(238,601)</b>	<b>(147,519)</b>
<b>Net cash generated from/(used in) investing activities</b>	<b>1,580</b>	<b>(1,514)</b>
<b>Net cash used in financing activities</b>	<b>(334)</b>	<b>(279)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(237,355)</b>	<b>(149,312)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>1,452,386</b>	<b>1,819,833</b>
Effect of changes in exchange rate	(37,561)	(71,311)
<b>Cash and cash equivalents at end of the period</b>	<b>1,177,470</b>	<b>1,599,210</b>



## 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 2022, 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 2022, 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 2023.

### 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

## Notes to the Condensed Consolidated Interim Financial Information

### 2. REVENUE AND SEGMENT INFORMATION (CONTINUED)

#### (a) Segment revenue and results

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
<b>Revenue</b>						
Revenue from external customers	271,214	267,981	104,608	132,422	375,822	400,403
Inter-segment revenue	–	–	–	–	–	–
Reportable segment revenue	271,214	267,981	104,608	132,422	375,822	400,403
<b>Results</b>						
Reportable segment (loss)/profit	(108,877)	9,956	(186)	25,036	(109,063)	34,992
Other income					1,586	2,737
Depreciation of property, plant and equipment					(15,673)	(17,749)
Depreciation of right-of-use assets					(1,500)	(1,627)
Finance costs					(118)	(64)
Unallocated corporate expenses					(10,649)	(5,333)
Consolidated (loss)/profit before taxation					(135,417)	12,956
Income tax charge					(116)	(1,857)
Consolidated (loss)/profit after taxation					(135,533)	11,099

## Notes to the Condensed Consolidated Interim Financial Information

### 2. REVENUE AND SEGMENT INFORMATION (*CONTINUED*)

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

	Rare Earth		Refractory		Total	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
<b>For the six months ended 30 June</b>						
<b>Sales of major products</b>						
Rare earth oxides	271,214	267,981	–	–	271,214	267,981
Refractory materials	–	–	84,870	110,635	84,870	110,635
Magnesium grains	–	–	19,738	21,787	19,738	21,787
<b>Total</b>	<b>271,214</b>	<b>267,981</b>	<b>104,608</b>	<b>132,422</b>	<b>375,822</b>	<b>400,403</b>
<b>Geographical markets</b>						
The People's Republic of China (the "PRC")	265,888	258,549	73,333	80,426	339,221	338,975
Japan	5,326	9,040	18,356	28,553	23,682	37,593
Europe	–	–	810	537	810	537
Others	–	392	12,109	22,906	12,109	23,298
<b>Total</b>	<b>271,214</b>	<b>267,981</b>	<b>104,608</b>	<b>132,422</b>	<b>375,822</b>	<b>400,403</b>

### 3. FINANCE COSTS

During the six months ended 30 June 2023, finance costs included interest on discounted bills at approximately HK\$118,000 (2022: HK\$63,000) and interest on lease liabilities at approximately HK\$33,000 (2022: HK\$42,000).

## Notes to the Condensed Consolidated Interim Financial Information

### 4. (LOSS)/PROFIT BEFORE TAXATION

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

	For the six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Depreciation of property, plant and equipment	15,709	17,784
Depreciation of right-of-use assets	1,684	1,812
Write-down of inventories	45,940	9,487
Reversal of write-down of inventories	–	(76)

### 5. INCOME TAX CHARGE

	For the six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Current tax – PRC Enterprise Income Tax		
Provision for the period	–	2,410
Deferred taxation		
Origination and reversal of temporary difference	116	(553)
Income tax charge	116	1,857

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 2023 and 2022 as the estimated assessable profits arising in Hong Kong for the periods were offset with the accumulated tax losses brought forward.

## Notes to the Condensed Consolidated Interim Financial Information

### 5. INCOME TAX CHARGE (CONTINUED)

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 six months ended 30 June 2023 and 2022.

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 2023 (2022: Nil).

No interim dividend was declared for the six months ended 30 June 2023 (2022: Nil).

### 7. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of approximately HK\$129,390,000 (2022: profit of HK\$11,396,000) and the weighted average number of approximately 2,341,700,000 (2022: 2,341,700,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2023 equal to the basic loss per share as the exercise of the Company's outstanding share options would have anti-dilutive effect.

Diluted earnings per share for the six months ended 30 June 2022 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 2023, the Group spent approximately HK\$8,000 (2022: HK\$4,934,000) on additions to property, plant and equipment.

## Notes to the Condensed Consolidated Interim Financial Information

### 9. TRADE AND OTHER RECEIVABLES

Trade and other receivables of the Group comprised:

	30 June 2023 <i>HK\$'000</i>	31 December 2022 <i>HK\$'000</i>
Trade and bills receivables	486,506	476,680
Other receivables	2,084	985
Other tax refundable	1,957	14,366
	<b>490,547</b>	<b>492,031</b>

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

	30 June 2023 <i>HK\$'000</i>	31 December 2022 <i>HK\$'000</i>
Less than 6 months	239,056	249,877
6 months to less than 1 year	188,458	147,634
1 year to less than 2 years	110,728	119,253
Over 2 years	13,892	14,049
	<b>552,134</b>	<b>530,813</b>
Less: Impairment loss on trade and bills receivables	<b>(65,628)</b>	<b>(54,133)</b>
	<b>486,506</b>	<b>476,680</b>

The Group generally allows a credit period ranging from 0 to 180 days to its customers and allows up to 365 days to reputable customers.

## Notes to the Condensed Consolidated Interim Financial Information

### 10. TRADE PAYABLES

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

	30 June 2023 <i>HK\$'000</i>	31 December 2022 <i>HK\$'000</i>
Less than 6 months	48,147	54,672
6 months to less than 1 year	23,764	11,016
1 year to less than 2 years	4,811	8,756
Over 2 years	11,352	10,187
	<b>88,074</b>	<b>84,631</b>

### 11. PLEDGE OF ASSETS

As at 30 June 2023, certain leasehold lands with carrying amount of approximately HK\$36,561,000 (31 December 2022: HK\$38,502,000) and certain buildings with aggregate no carrying amount (31 December 2022: nil) were pledged to a bank as collateral for banking facilities.

## Management Discussion and Analysis

### FINANCIAL RESULTS

In the first half of 2023, the international geopolitical situation remained tense, compounded by the impact of US inflation and interest rate hikes, with global consumer confidence yet to fully recover. In response to the market uncertainty, The Group has optimised its operational structures in order to align with its unwavering commitment to delivering high-quality products to its valued customers, preparing the Group to seize market opportunities when the market fully recovers.

For the six months ended 30 June 2023, the Group recorded a total revenue of approximately HK\$375,822,000, down by around 6% from approximately HK\$400,403,000 earned in the same period of 2022. Revenue from the rare earth segment increased by about 1% from around HK\$267,981,000 to HK\$271,214,000, contributing to about 72% of the Group's total revenue. Revenue from the refractory segment slipped by about 21% from around HK\$132,422,000 to HK\$104,608,000, accounting for about 28% of the Group's total revenue. During the period under review, the Group's gross loss margin was approximately 24%. Net loss for the period was about HK\$135,533,000. Loss per share was about HK5.53 cents (earnings per share was approximately HK0.49 cents for the first half of 2022).

### BUSINESS REVIEW

#### Rare Earth Business

Since the third quarter of 2022, the prices of rare earth have been continuously declining. However, over the long term, the demand for rare earths is expected to gradually recover, and prices are also expected to gradually increase. Reasons for this include national policies to promote carbon peaking and carbon neutrality, as well as the continued development of new energy vehicles, industrial electromechanics, wind power generation, and industrial artificial intelligence.

During the period under review, the sales volume of rare earth products increased by 28% to about 320 tonnes compared to the first half of 2022. However, the average selling price decreased compared to the same period last year. The main rare earth sales products, such as dysprosium oxide, terbium oxide, and neodymium praseodymium oxide, accounted for more than 90% of the sales in the rare earth segment. The selling prices of dysprosium oxide and terbium oxide decreased by 25% and 33%, respectively, due to market fluctuations. However, the segment's sales amounted to about HK\$271,214,000, representing an increase of approximately 1% year-on-year. In view of the rare earth product's selling prices has been further decreased since the second quarter of 2023, the rare earth segment increased impairment provisions for inventories, leading to a gross loss margin of about 36%.



## Management Discussion and Analysis

During the period under review, the overall rare earth prices in the Chinese market followed a downward trend. Despite the positive developments in industries such as automobiles and wind power, magnetic material companies adopted a cautious approach in procurement due to the unstable economic environment. They focused on consuming existing inventories rather than increasing new purchases, resulting in a decrease in the volume of new procurement. During this period, the Group made tremendous efforts to deepen long-term and stable cooperation with high-quality customers and actively sought new customers to expand its sources of revenue. Due to various factors, the rare earth industry faced challenges in the first half of 2023.

In terms of geographical market distribution, the domestic market in China accounted for about 98% of the rare earth segment's total revenue. Japanese market accounted for the remaining approximately 2%.

### Refractory Materials Business

In the first half of 2023, the Group sold around 10,700 tonnes of refractory materials, representing a decrease of 11% from the same period last year. The average selling prices of major products experienced varying degrees of decline. Compared to the same period last year, the price of casting materials decreased by about 20%; the price of fused magnesia-chrome bricks decreased by about 5%; the price of aluminium carbon bricks decreased by about 12%; and the average price of high temperature ceramic products also decreased by about 10%. The Group's sales of refractory materials amounted to about HK\$84,870,000, representing a decrease of about 23% year-on-year.

The Group's main customers are steel producers. However, due to the slow recovery of consumer market confidence after the pandemic, the demand has been sluggish. The sales performance of steel producers in the first half of the year was not ideal, and most of them are still operating at a loss. Furthermore, changes in the industry's bidding model have directly driven steel producers to cut costs, putting direct pressure on the sales prices of equipment suppliers. In addition, the refractory materials industry remains highly competitive, with a "price war" affecting selling prices, resulting in a decline in the gross profit margin of the division to approximately 9% during the period.

In terms of the magnesite grains business, the Group's magnesium grains factory Haicheng City Suhai Magnesium Ore Company Limited resumed production in March 2023 and implemented practical work plans, effectively boosting sales volume. During the period, the Group sold about 8,100 tonnes of magnesite grains products, representing a growth of about 24% compared to the same period last year. However, due to the impact of the "price war," the average selling price of the main product decreased by 35%. As a result, the magnesite grains business recorded a gross loss margin of about 9% during the period.

## Management Discussion and Analysis

In terms of geographical market distribution, the domestic market in China accounted for approximately 70% of the Group's revenue from refractory products, representing an increase compared to last year. Meanwhile, the Japanese market accounted for around 18% while other overseas markets, including the Korean market, accounted for the remaining approximately 12%.

### PROSPECTS

In August 2023, China implemented export controls on key semiconductor raw materials such as gallium and germanium. It is anticipated that rare earths may become the next restricted export item. If the relevant export policies are implemented, it will effectively control the quantity of rare earth exports and stabilize the selling prices of rare earth raw materials. On the demand side, traditional sectors such as variable frequency air conditioning, consumer electronics, traditional automobiles, and wind power are expected to benefit from macroeconomic recovery. Emerging sectors such as new energy vehicles, industrial energy-saving motors, and robotics are also expected to continue to grow. With the increase in demand and the support of relevant national policies, the long-term growth prospects of the rare earth industry are clear to see. The Group will also adapt to market development trends, strengthen the development of segmented markets, seek research and development cooperation opportunities, and strive to develop patented brands to seize market opportunities.

In line with the recent restructuring of the rare earth industry in China and other market changes, the Group has been actively seeking cooperation partners. It has reached a strategic cooperation framework agreement with China Northern Rare Earth (Group) High-Tech Co., Ltd. Both parties are in continuous communication, aiming to expedite the implementation of substantial cooperation opportunities. In mid-2022, the Group furthered its expansion into the upstream rare earth sector by entering into a memorandum of understanding with Longchuan Zhongxin Xisheng Import and Export Co., Ltd. The Group is actively conducting due diligence for the investment. In addition, it will continue to monitor the mineral resources situation in Myanmar, with the hopes that through this upstream expansion strategy, it can stabilize the sourcing channels and gain control over raw material resources to enhance its competitive advantage.

## Management Discussion and Analysis

The Group is committed to environmental sustainability and to ensuring a safe working environment. Following the completion of environmental maintenance projects at the end of 2022, rigorous control measures are still in place. The production equipment is regularly inspected to ensure that necessary renovations or repairs can be carried out promptly, thereby promoting green and sustainable development. The Group's production facilities are located in Yixing City, located on the banks of Taihu Lake. The Group is grateful for the Yixing Government's support over the years, which has enabled the Group to develop and grow in a favourable environment. As Yixing city has made efforts to become a green city in recent years, the Group is considering increasing investment in environmental protection equipment for the rare earth separation production line and establishing a green factory there.

In the future, the Group will adhere to the principle of seeking steady progress and implementing decisions that support high-quality development. In terms of sales, the Group will avoid collaborations that result in losses, and will instead strive to establish long-term stable relationships with high-quality customers. In addition, the Group will actively seek new customers in order to achieve stable returns.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to be prudent in its financial arrangements to ensure that it has adequate liquidity for future investments and expansions. As at 30 June 2023, the Group had cash and bank deposits of approximately HK\$1,177,470,000, which had dropped by HK\$274,916,000 as compared to HK\$1,452,386,000 at the end of 2022. However, there is still adequate liquidity for future development.

During the period under review, the Chinese economy slowly recovered from the effects of the pandemic. However, some of the Group's customers were also affected and the credit repayment period was extended, resulting in an increase in the ageing of the Group's trade receivables. In response, the Group has proportionally increased the provision for impairment losses. While the Group believes that the risk of bad debts is limited, it will closely monitor the situation and promptly collect outstanding payments. In addition, to address the anticipated tightening of material resource supply, the Group has arranged for advance payments on materials. As at 30 June 2023, the net current assets of the Group was approximately HK\$1,846,569,000, representing a decrease compared to the end of last year. The total liabilities to total assets ratio remained at about 6%.

## Management Discussion and Analysis

During the period under review, the Group did not borrow any funds from banks or financial institutions. As at 30 June 2023, the Group has maintained a financing facility of RMB150,000,000 (equivalent to approximately HK\$162,690,000) with a domestic bank by pledging certain leasehold lands and buildings with a total carrying value of approximately HK\$36,561,000. The facility 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 also 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, while the rest are denominated in US dollars or Hong Kong dollars. During the period under review, Renminbi depreciated slightly due to a strong US dollar, but this did not cause any significant fluctuations to or impact on the Group's financial results.

### STAFF AND REMUNERATION

The Group continued to streamline its manpower structure in line with business needs. As at 30 June 2023, the Group had around 360 employees at different levels. During the period under review, the Group's staff costs including directors' emoluments amounted to HK\$21,786,000, which is higher than the same period in 2022 due to recognition of equity-settled share-based payment expenses of approximately HK\$5,039,000 during the period under review. The Group continued to provide regular on-the-job training and study opportunities to the 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 2023 (2022: Nil).

### SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There was no significant subsequent event affecting the Company after 30 June 2023 and up to the date of this report.

## Other Information

### SHARE OPTION SCHEME

At the Company's annual general meeting held on 6 June 2014, the shareholders of the Company approved the adoption of a new share option scheme currently in force (the "New Scheme") after the old share option scheme, which was previously adopted on 4 June 2004, lapsed on 3 June 2014 for the purpose of providing incentives to participants for their contribution to the Group. Under the amended Chapter 17 of the Listing Rules, which has come into effect on 1 January 2023, the company will rely on the transitional arrangements provided for the New Scheme and will only grant share options in compliance with the amended Chapter 17 of the Listing Rules (to the extent applicable).

On 30 November 2022, the Company granted 100,000,000 share options to five existing members of staff and five proposed members of staff within the Group, in which, 12,500,000 share options were granted to two key management personnel, to subscribe for ordinary shares of HK\$0.10 each in the share capital of the Company at an exercise price of HK\$0.51 per share. The vesting period of such share options granted is from 30 November 2022 to 29 November 2023, while the exercise period is from 30 November 2023 to 5 June 2024.

The number of options available for grant under the scheme mandate limit of the New Scheme as at 1 January 2023 and 30 June 2023 was 67,264,305 and 67,264,305 shares of the Company (the "Shares"), respectively. No options were granted under the New Scheme during the six months ended 30 June 2023.

Particulars of the movement of the options granted under the New Scheme during the six months ended 30 June 2023 were as follows:

Participants	Date of grant	Vesting period	Exercise period	Exercise price per Share	Number of options			Held at 30 June 2023	
					Held at 1 January 2023	Granted during the period	Exercised during the period		Cancelled or lapsed during the period
<b>Employees</b>									
<b>In aggregate</b>	30 November 2022	30 November 2022 to 29 November 2023	30 November 2023 to 5 June 2024	HK\$0.51	100,000,000	-	-	10,500,000 (Note)	89,500,000

*Note:*

The number of options cancelled or lapsed during the period was 10,500,000, which was due to resignation of an existing employee.

## Other Information

Save as disclosed above, no options granted was exercised, cancelled or lapsed during the period.

The closing price of the Shares on the date on which the options were granted was HK\$0.51 per share. The closing price of the Shares immediately before the date on which the options were granted was HK\$0.50 per share.

The aggregate fair value of the share options determined at the date of grant was based on the Hull-White model, was approximately HK\$10,935,000.

The vesting and exercise of the options granted to five proposed employees and one existing employee carry conditions and/or performance target as follows:

### **The five proposed employees**

The vesting and exercise of the options granted to the five proposed employees shall be conditional upon the acceptance of their employment offer as an employee of the Group.

### **The one existing employee**

The vesting and exercise of the options granted to the one existing employee shall be conditional upon the fulfillment of a performance target of achieving an appraisal target to be assessed by the Remuneration Committee of the Board.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement, which enables any of the directors or chief executives of the Company or their spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## Other Information

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 30 June 2023, the interests and short positions of the directors and chief executives of the Company and their respective close associates in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

#### 1. Interests in shares of the Company

Director	Nature of interest/Capacity	Number of shares	% to the issued share capital of the Company
Qian Yuanying	Founder of a trust	707,179,200 (Note 1)	30.20%
Qian Yuanying	Interest of controlled corporation	21,000,000 (Note 2)	0.90%
Jiang Quanlong	Interest of spouse/Interest of controlled corporation	728,179,200 (Notes 1 & 2)	31.10%
Jiang Dawei	Beneficial owner	530,077 (Note 3)	0.02%

Notes:

- 707,179,200 shares are held in long position through YY Holdings Limited, the entire issued share capital of which is held by YYT (PTC) Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong, and her sons. Ms. Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr. Jiang Quanlong and Ms. Qian Yuanying are the directors of YY Holdings Limited.
- 21,000,000 shares are held in long position through Praise Fortune Limited of which 39.93% of its issued share capital is held by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong. Ms. Qian Yuanying is a director of Praise Fortune Limited.
- All the shares are held in long position.

## Other Information

### 2. Interests in shares, underlying shares or equity interests in associated corporations

(a) *Microtech Resources Limited*

<b>Director</b>	<b>Nature of interest/Capacity</b>	<b>Number and class of issued shares</b>	<b>% in the class of shares in the issued share capital of the company</b>
Qian Yuanying	Beneficial owner	3,000,000 non-voting deferred shares	30%
Jiang Quanlong	Beneficial owner	7,000,000 non-voting deferred shares	70%

(b) *Yixing Xinwei Leeshing Rare Earth Company Limited*

<b>Director</b>	<b>Nature of interest/Capacity</b>	<b>% equity interest</b>
Jiang Quanlong	Interest of controlled corporation	5%

*Note:*

The equity interest is held by Yixing Xinwei Group Co. Ltd., a PRC domestic enterprise 90% owned by Mr. Jiang Quanlong, with the remaining 10% owned by his spouse Ms. Qian Yuanying. Mr. Jiang Quanlong is also the legal representative of the enterprise.



## Other Information

### (c) YY Holdings Limited

<b>Director</b>	<b>Nature of interest/Capacity</b>	<b>Number and class of issued shares</b>	<b>% in the class of shares in the issued share capital of the company</b>
Qian Yuanying	Founder of a trust	1 ordinary share	100%
Qian Yuanying	Founder of a trust	25,000 preference shares	100%
Jiang Quanlong	Interest of controlled corporation	1 ordinary share	100%
Jiang Quanlong	Interest of controlled corporation	25,000 preference shares	100%

*Note:*

The entire issued share capital of YY Holdings Limited is held by YYT (PTC) Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong, and her sons. Ms. Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr. Jiang Quanlong and Ms. Qian Yuanying are the directors of YYT (PTC) Limited.

Save as disclosed above, as at 30 June 2023, none of the directors or chief executives of the Company and their respective close associates had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register kept under Section 352 of the SFO.

## Other Information

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS**

So far as is known to the directors, as at 30 June 2023, the interests and short positions of shareholders, other than the directors or chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

1. YY Holdings Limited, the entire issued share capital of which is held by YYT (PTC) Limited, was holding 707,179,200 shares of the Company in long position, representing approximately 30.20% of the issued share capital of the Company as beneficial owner.
2. YYT (PTC) Limited was deemed to be interested in long position in 707,179,200 shares of the Company held by YY Holdings Limited, the entire issued share capital of which is held by YYT (PTC) Limited.

Save as disclosed above, no other party, other than the directors or chief executives of the Company, had notified the Company that had any interest or short position in the shares or underlying shares of the Company as recorded in the register kept under Section 336 of the SFO as at 30 June 2023.

### **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 2023.

### **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 2023.

## Other Information

### 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 report, 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 the accounting principles and policies adopted by the Group and the Group's unaudited interim results for the six months ended 30 June 2023, 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. 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 2023.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Board, the Company has maintained sufficient public float as required under the Listing Rules during the period under review and up to the date of this report.

### MEMBERS OF THE BOARD

As at the date of this report, 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 2023