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RARE EARTH MAGNESIUM TECHNOLOGY GROUP HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 00601)

UPDATE OF FINANCIAL POSITION AND OPERATIONS OF THE GROUP AND POSSIBLE DEBT RESTRUCTURING

RESUMPTION OF TRADING IN THE SHARES

- CS, the controlling shareholder of the Company, has defaulted on the redemption of the SGD101.75 million in principal amount of the Notes on their maturity on 3 July 2020. Such default constitutes an event of default in respect of certain borrowings of the Group. The Company has received demands for repayment of borrowings from one of the bank creditors, as disclosed below, that it has not paid.

- Based on the unaudited management accounts of the Group and the Company (as an individual entity) as at 31 March 2020, the Group and the Company had total and current assets that exceeded total and current liabilities. However, the cash and cash equivalents of the Company amount to approximately HK$3.00 million only as at that date. Further financial and operational information of the Group and the Company is set out below.

- In order to facilitate a restructuring of its debts with the benefit of a statutory moratorium prohibiting the commencement or continuance of any proceedings against the Company without the leave of court, the Company has applied to the Supreme Court of Bermuda for the appointment of "light touch" joint provisional liquidators.

- Trading in the shares of the Company on the Stock Exchange was halted with effect from 9:00 a.m. on 2 July 2020 pending the issue of this announcement. Application has been made for the resumption of trading in the Shares with effect from 9:00 a.m. on 6 July 2020.

This announcement is made by Rare Earth Magnesium Technology Group Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09 of the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The Company refers to the announcement today (the "**CS Announcement**") of Century Sunshine Group Holding Limited ("**CS**" and together with its subsidiaries, "**CS Group**"), the controlling shareholder of the Company holding (through its wholly-owned subsidiary Ming Xin Developments Limited ("**Ming Xin**")) approximately 72.31% shareholding interest in the Company in relation to, among other things, default by CS (the "**CS Payment Default**") in its redemption of its 7.00% subordinated notes (the "**Notes**") in aggregate principal amount of SDG101.75 million (equivalent to approximately HK$563.56 million*) that matured on 3 July 2020 and an update of financial position and operations of CS Group and possible debt restructuring. Amongst others, Ming Xin is a guarantor of the Notes. In addition, as stated in the CS Announcement, it has received demands for repayment of borrowings of CS or its subsidiaries which CS guaranteed from certain of its bank creditors.

The CS Payment Default constitutes an event of default in respect of certain borrowings of the Group and certain debts are immediately payable on demand in accordance with their terms. The proposed appointment by the Company of "light touch" joint provisional liquidators to facilitate a restructuring (see below) will also constitute an event of default under the terms of certain other borrowings of the members of the Group.

On 30 June 2020, the Company has received, a demand from one of its bank creditors for the repayment of borrowings of the Company or its subsidiaries guaranteed by the Company of approximately HK$22.87 million plus interest accrued. The Company believes that it is likely to receive further calls from its creditors following the CS Payment Default, the cross defaults and the issue of this announcement.

The Group's debt profile

As at 30 June 2020, the total principal amount of outstanding offshore borrowings of the Group (i.e. borrowings of members of the Group that are incorporated outside of the People's Republic of China, excluding Hong Kong, Macau and Taiwan ("**Mainland China**")) amounted to approximately HK$298.52 million, comprising loans and unlisted bonds of which approximately 66.5% in principal amount is due before mid-September 2020; and the total principal amount of outstanding onshore borrowings (being borrowings of members of the Group that are incorporated in Mainland China) amounted to approximately HK$145.35 million, comprising outstanding bank loans of approximately RMB94.70 million (equivalent to approximately HK$103.25 million*) and outstanding loan from a financial institution of approximately US$5.44 million (equivalent to approximately HK$42.10 million*). Approximately 32.01% in principal amount of the Group's borrowings as at 30 June 2020 is guaranteed by CS. The Company is also a corporate guarantor for a borrowing of its subsidiary. Given the CS Payment Default and the cross defaults, the Company expects that it is unlikely to be able to refinance its offshore borrowings that will fall due in the next couple of months.

The Group's financial position

Based on the unaudited management accounts of the Group as at 31 March 2020, the Group had unaudited total assets of approximately HK$2,437.43 million (including unaudited current assets of approximately HK$828.70 million of which cash and cash equivalents comprised approximately HK$153.84 million) and unaudited total liabilities of approximately HK$1,085.97 million (including unaudited current liabilities of approximately HK$428.29 million). However, based on the Company's unaudited management accounts as at 31 March 2020, the Company (on a single company basis) had unaudited total assets of approximately HK$694.83 million, of which over 71% was investments in subsidiaries and approximately HK$3.00 million was cash and cash equivalents and unaudited total liabilities of approximately HK$732.99 million and, after excluding inter-company balances with CS Group (excluding the Group) of approximately HK$314.38 million, of which over 97% represented borrowings of the Company.

Debt restructuring

The Company is exploring options (in conjunction with CS, who is a guarantor of certain of the Group's borrowings) to restructure its debts and intends, to implement a management led restructuring by taking advantage of the court-supervised provisional liquidation regime in Bermuda, commonly known as a "light touch" provisional liquidation, which gives the Company the benefit of a statutory moratorium prohibiting the commencement or continuance of any proceedings against the Company without the leave of the Supreme Court of Bermuda.

Accordingly, a winding up petition has been submitted to the Supreme Court of Bermuda on behalf of the Company on 3 July 2020 (Bermuda time) together with an application for the appointment of joint provisional liquidators on a "light touch" basis that the board of directors of the Company will retain management of the Company while the joint provisional liquidators will work alongside the Company's management to, amongst other things, monitor, supervise, and oversee the implementation of a group-wide holistic and coordinated restructuring of its debts and liabilities including to maintain the listing of the Company on the Stock Exchange.

The CS Announcement sets out the restructuring currently contemplated by CS, which can include potential disposal of non-core business and assets of the CS Group to enhance its liquidity.

The Company will also explore, as restructuring options for the Group, equity restructuring to facilitate the raising of cash for the Company from third party investors through an equity issue; and debt restructuring that may involve refinancing and/or a compromise or arrangement of debts and liabilities of the Group.

OPERATIONS OF THE GROUP

Magnesium Product Business

The Group is principally engaged in the magnesium product business (the "**Magnesium Product Business**"), which represents the manufacture and sale of magnesium products. It owns two production sites in Jilin Province and Xinjiang in Mainland China and a dolomite mine in Jilin Province in Mainland China. Dolomite is a principal raw material used in the production of magnesium products.

The Group's operations are independent of and segregated from CS. The Magnesium Product Business is generally funded by the Group's working capital and the trade finance facilities in Mainland China. Based on the review of the current business and financial position by the Directors, the income from sale of magnesium products is sufficient to cover the operating expenses and the financial obligations under the onshore borrowings associated with the production operations of the Magnesium Product Business. Nevertheless, the ability of the Group to meet such financial obligations in the future will depend on performance of Magnesium Product Business and the impact of the CS Payment Default and the cross defaults to the Magnesium Product Business.

The continued spread of COVID-19 since early 2020 has affected the production and sales of the Magnesium Product Business. The preventive and control measures on travel and social distancing in Mainland China after Chinese New Year caused temporary disruption on the production operations or impeded delivery logistics in the first quarter of 2020. In addition, slower recovery of sales and trade receivables is noted as the escalating severity of COVID-19 worldwide and the rising tension of Mainland China and the United States of America ("**US**") relations have negatively affected the demand of the downstream customers of the Magnesium Product Business in Europe and the US, which in turn has affected the business and cashflow of the Group's customers in Mainland China. The directors of the Company will continue to closely monitor the development of the COVID-19 outbreak and evaluate the extent of its impact on the Magnesium Product Business.

Given that the full extent of the material impact that the COVID-19 pandemic has on the global economy (including the Group's customers) and the cross defaults remain uncertain, the Company continues to closely monitor its cashflow position and preserve liquidity. On 23 June 2020, the Company announced the withdrawal of payment of final dividend for the year ended 31 December 2019. In addition, the Company will suspend the planned expansion of production capacity and avoid significant capital expenditures other than expenditures for repairs and maintenances associated with production operations.

Customers and suppliers

Currently, the relationship between the Group and its customers and suppliers remains largely stable. The Group is actively engaging with its customers and suppliers and seeking their understanding and support of the current financial condition of the Group.

Employees and factory production

The Group's production activities have been conducted in the usual manner and the Group will focus on improvements in operational and cost efficiency and effectiveness of its production operations.

The Group currently does not have any plan to effect large-scale redundancy of its labour force but the Group may from time to time review and adjust the production scale as well as its workforce requirements in response to the market uncertainties and the impact of the CS Payment Default and the cross defaults.

Business prospect

The Company focuses on the development of high-end magnesium alloys products (which have been widely used as light-weight eco-friendly strategic materials in the fields of transportation, 3C electronics, aviation and aerospace, medical, etc) by leveraging on its patented technologies and the application of the advanced production processes for producing applied alloys from intermediate alloys and it has accumulated and retained numerous high-quality customers over the years through providing quality products and services. The directors of the Company are confident that there will be greater market demands for the application of magnesium alloys with the rapid development of 5G and lightweight of automobile and thus, creating opportunities for the future growth of the Magnesium Product Business following stabilization of the Group's liquidity challenges in light of the developments disclosed in this announcement.

GENERAL

The Company will make further announcement(s) in accordance with the Listing Rules as and when necessary or appropriate in relation to any material developments in relation to the matters disclosed above in this announcement.

Shareholders of, and potential investors in, the Company are reminded to exercise caution when dealing in the securities of the Company, and if they are in any doubt about their position, they should consult their professional advisers.

Resumption of trading

Trading in the shares of the Company on the Stock Exchange was halted with effect from 9:00 a.m. on 2 July 2020 pending the issue of this announcement. Application has been made for the resumption of trading in the shares of the Company with effect from 9:00 a.m. on 6 July 2020.

By Order of the Board
Rare Earth Magnesium Technology Group Holdings Limited
Shum Sai Chit
Chairman

Hong Kong, 3 July 2020

As at the date of this announcement, the Directors are:

Executive Directors:	*Mr. Shum Sai Chit and Mr. Chi Jing Chao*
Non-executive Director:	*Professor Meng Jian*
Independent non-executive Directors:	*Mr. Kwong Ping Man, Mr. Cheung Sound Poon and Mr. Kwan Ngai Kit*

* *For the purpose of this announcement, the translations of SGD to HK$, RMB to HK$ and US$ to HK$ are based on the respective exchange rate of SDG$1 =HK$5.5387, RMB1 = HK$1.0902 and US$1 = HK$7.739 and are provided for illustration purpose only.*