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RARE EARTH MAGNESIUM TECHNOLOGY GROUP HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 00601)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

UNAUDITED CONSOLIDATED RESULTS

For the reasons explained below under "Review of Unaudited Annual Results", the auditing process for the annual results of Rare Earth Magnesium Technology Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") has not been completed. In the meantime, the board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**2019** **HK$'000** **(Unaudited)**	2018 HK$'000 (Audited)
CONTINUING OPERATIONS			
Revenue	4	**1,515,291**	1,537,781
Cost of sales		**(1,099,085)**	(1,128,298)
Gross profit		**416,206**	409,483
Other income and other gains, net	4	**12,152**	3,527
Selling and distribution expenses		**(15,615)**	(15,328)
Administrative expenses		**(77,551)**	(57,098)
Finance costs	6	**(72,064)**	(73,058)
PROFIT BEFORE TAX	5	**263,128**	267,526
Income tax expense	7	**(53,396)**	(49,835)

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(cont'd)*

	Notes	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**209,732**	217,691
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations		**–**	68,169
Profit for the year		**209,732**	285,860
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(79,605)**	(106,102)
Release of reserves upon disposal of subsidiaries		**–**	(43,618)
Other comprehensive loss for the year, net of income tax		**(79,605)**	(149,720)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**130,127**	136,140
Profit for the year attributable to:			
Owners of the Company			
— from continuing operation		**209,732**	217,691
— from discontinued operation		**–**	68,081
		209,732	285,772

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(cont'd)*

	Notes	**2019** **HK$'000** **(Unaudited)**	2018 HK$'000 (Audited)
Non-controlling interests			
— from continuing operation		**–**	–
— from discontinued operation		**–**	88
		–	88
		209,732	285,860
Total comprehensive income for the year attributable to:			
Owners of the Company			
— from continuing operation		**130,127**	114,970
— from discontinued operation		**–**	20,771
		130,127	135,741
Non-controlling interests			
— from continuing operation		**–**	–
— from discontinued operation		**–**	399
		–	399
		130,127	136,140
Earnings per share:			
From continuing and discontinued operation			
— basic	9	**3.19 cents**	4.35 cents
— diluted		**3.19 cents**	4.30 cents
From continuing operation			
— basic and diluted	9	**3.19 cents**	3.31 cents

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**Year ended 31 December 2019** ***HK$'000*** ***(Unaudited)***	Year ended 31 December 2018 *HK$'000* *(Audited)*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,524,989**	1,534,027
Prepaid land lease payments		**–**	52,036
Right-of use assets		**50,928**	–
Intangible assets		**34,661**	40,030
Mining rights		**45,899**	47,298
Pledged bank deposits		**9,549**	9,757
Total non-current assets		**1,666,026**	1,683,148
CURRENT ASSETS			
Inventories		**186,807**	146,419
Trade and bills receivables	10	**151,471**	217,980
Prepaid land lease payments		**–**	1,319
Prepayments, deposits and other receivables		**287,879**	177,101
Pledged bank deposits		**7,328**	14,975
Cash and cash equivalents		**254,813**	131,276
Total current assets		**888,298**	689,070
CURRENT LIABILITIES			
Trade payables	11	**47,993**	41,849
Other payables and accruals		**25,211**	48,570
Contract liabilities		**19,742**	7,799
Borrowings		**315,765**	65,706
Convertible bond	12	**385,072**	–
Tax payable		**10,794**	8,154
Total current liabilities		**804,577**	172,078
NET CURRENT ASSETS		**83,721**	516,992
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,749,747**	2,200,140

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(cont'd)

	Notes	**Year ended 31 December 2019** *HK$'000* ***(Unaudited)***	Year ended 31 December 2018 *HK$'000* *(Audited)*
NON-CURRENT LIABILITIES			
Deferred revenue		**68,283**	69,772
Convertible bond	12	**–**	350,336
Borrowings		**171,677**	310,921
Deferred tax liabilities		**8,872**	14,742
Amounts due to shareholders		**113,028**	183,152
Total non-current liabilities		**361,860**	928,923
Net assets		**1,387,887**	1,271,217
EQUITY			
Equity attributable to owners of the Company			
Issued capital	13	**657,439**	657,439
Reserves		**730,448**	613,778
Total equity		**1,387,887**	1,271,217

NOTES

1 BASIS OF PREPARATION

The Group's unaudited financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinances.

They have been prepared under the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these unaudited consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The unaudited consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The unaudited financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs (the "New and Amendments to HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments

Except as described below, the application of the New and Amendments to HKFRSs in the current year has had no material impact on the Group's unaudited financial positions and performance for the current and prior years and/or on the disclosures set out in these unaudited consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessor

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact on leases where the Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

(ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(iii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

(iv) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options; and

(v) relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's unaudited consolidated statement of financial position: Line items that were not affected by the changes have not been included.

Line items in the unaudited consolidated statement of financial position impacted by the adoption of HKFRS 16	**Carrying amount previously reported as at 31 December 2018**	**Adjustments**	**Carrying amounts under HKFRS 16 as at 1 January 2019**
	HK$'000	***HK$'000***	***HK$'000***
	(Audited)	***(Unaudited)***	***(Unaudited)***
NON-CURRENT ASSETS			
Prepaid land lease payment	**52,036**	**(52,036)**	**–**
Right-of-use assets	**–**	**53,355**	**53,355**
CURRENT ASSETS			
Prepaid land lease payment	**1,319**	**(1,319)**	**–**

The carrying amount of right-of use assets for own use as at 1 January 2019 comprises the following:

	Right-of-use assets
	HK$'000
	(Unaudited)
Reclassified from prepaid land lease payment upon application of HKFRS 16	**53,355**

New and amendments to HKFRSs on issue but not effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[1]
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform[1]
HKFRS 3 (Amendments)	Definition of a Business[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 17	Insurance Contracts[3]

1 Effective for annual periods beginning on or after 1 January 2020.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after 1 January 2021.

4 Effective for annual periods beginning on or after a date to be determined.

In addition to the above new and amendments to HKFRSs, a revised "Conceptual Framework for Financial Reporting" was issued in 2018. Its consequential amendments, the "Amendments to References to the Conceptual Framework" in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020. The directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the unaudited consolidated financial statements in the foreseeable future.

3. OPERATING SEGMENT INFORMATION

Information reported internally to the chief operating decision makers for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. During the year ended 31 December 2018, the Group discontinue the reportable segments of i) the personal communication products segment designs, manufactures and sells a range of communications products; and ii) the strategic products segment designs, manufactures and sells ODM products and electronic dictionary products and provides electronic manufacturing services. In effect, the Group is principally engaged in one single segment, which is manufacturing and selling magnesium related products during the year ended 31 December 2019. A single management team reports to the chief operating decision makers who comprehensively manages such entire business segment. Accordingly, the Group does not have separately reportable segments.

Geographical information

(a) Revenue from external customers

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Continuing operations		
Mainland China (other than Hong Kong)	**1,478,854**	1,498,667
Europe	**36,437**	39,114
	1,515,291	1,537,781

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Mainland China (other than Hong Kong)	**1,666,026**	1,683,148

The non-current assets information above is based on the locations of the assets.

Information about major customers

No sales to a single customer contributed 10% or more of the Group's revenue during the current year and prior year.

4. REVENUE, OTHER INCOME AND OTHER GAINS, NET

An analysis of revenue and other income and gains, net is as follows:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Continuing operations:		
Revenue from contract with customer recognised at a point in time		
Sale of magnesium related products	**1,515,291**	1,537,781
Other income and other gains, net		
Bank interest income	**1,401**	928
Sales of scrap materials	**2,190**	1,223
Gain on disposal of property, plant and equipment	**662**	–
Others	**7,899**	1,376
	12,152	3,527

All revenue contracts are for one year or less. As permitted by practical expedient under HKFRS 15, the transaction price allocated to unsatisfied contracts is not disclosed.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Continuing operations:		
Cost of inventories sold#	**926,306**	995,232
Depreciation of property, plant and equipment	**86,277**	69,856
Depreciation of right-of-use assets*	**1,320**	–
Gain on disposal of property, plant and equipment	**(662)**	–
Recognition of prepaid lease payments*	**–**	1,379
Amortisation of mining right*	**400**	546
Amortisation of intangible assets*	**4,549**	8,176
Auditors' remuneration		
– Audit Service	**1,639**	1,639
– Non-audit Service	**–**	–
Employee benefit expense (including directors' remuneration)		
Wages and salaries and benefits in kind	**93,647**	77,533
Pension scheme contributions	**685**	698
	94,332	78,231
Foreign exchange differences, net*	**441**	2,761
Allowance for expected credit loss on deposits and other receivables*	**170**	–
Reversal of allowance for expected credit loss on trade receivables*	**(1,972)**	(249)

Included in "Cost of sales" in the unaudited consolidated statement of profit or loss and other comprehensive income

* Included in "Administrative expenses" in the unaudited consolidated statement of profit or loss and other comprehensive income

6. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Continuing operations:		
Interest on bank and other borrowings wholly repayable within five years	**20,528**	26,037
Interest on convertible bonds	**51,536**	47,021
	72,064	73,058

7. INCOME TAX EXPENSE

The amount of income tax expense charged/(credited) to the unaudited consolidated statement of profit or loss and other comprehensive income represents:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Continuing operations:		
Current tax:		
– Hong Kong Profits Tax	**–**	–
– PRC Enterprises Income Tax	**59,203**	54,900
	59,203	54,900
Deferred taxation	**(5,807)**	(5,065)
	53,396	49,835

(a) Hong Kong Profits Tax

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rate regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits tax above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Group considered the amount involved upon implementation of the two-tiered profit tax rates require as insignificant to the unaudited consolidated financial statement. Hong Kong Profits tax is calculated at 16.5% of the estimated assessable profit for both years. No tax is payable for the year ended 31 December 2019 (2018: HK$Nil) since there was no assessable profit generated in Hong Kong.

(b) PRC Enterprise Income Tax

The PRC Enterprise income Tax is calculated at 25% on the estimated assessable profits arising in the PRC for the years ended 31 December 2019 and 2018.

8. DIVIDEND

The board of directors recommends the payment of final dividend for the year ended 31 December 2019 of HK$0.60 cents (2018: final dividend of HK$0.50 cents).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic

Continuing and discontinued operations

The calculation of the basic earnings per share amount from continuing and discontinued operations are based on the profit for the year attributable to ordinary equity holders of the Company from continuing and discontinued operations of HK$209,732,000 (2018: HK$285,772,000) and the weighted average number of ordinary shares of 6,574,390,058 (2018: 6,574,390,058) during the year.

(b) Diluted

Continuing operations

The calculation of the basic earnings per share from continuing operations amount is based on the profit for the year attributable to ordinary equity holders of the Company from continuing operations of HK$209,732,000 (2018:HK$217,691,000) and the weighted average number of ordinary shares of 6,574,390,058 (2018: 6,574,390,058) during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and convertible bonds (2018: two categories: share options and convertible bonds).

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price of shares for the year ended 31 December 2019.

For the convertible bonds, the effect on earnings per shares from continuing operations were an anti–dilutive for the year ended 31 December 2019, they were not included in the calculation of diluted earnings per share from continuing operations.

Continuing and discontinued operations

The dilutive effect on earnings per share from continuing operations and discontinued operations for the year ended 31 December 2018 were presented as below:

	2018 *(Audited)*
Continuing and discontinued operations:	
Profit for the year attributable to owners of the Company (HK$'000)	285,772
Effect of interest on convertible bonds, net-off tax (HK$'000)	42,035
Earnings for the purpose of diluted earnings per share from continuing and discontinued operations (HK$'000)	327,807
Weighted average number of ordinary shares in issue (thousand shares)	6,574,390
Effect of conversion of convertible bonds (thousand shares)	1,050,000
Weighted average number of ordinary shares for diluted earnings per share (thousand shares)	7,624,390
Diluted earnings per share (HK cents per share)	4.3

10. TRADE AND BILLS RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Trade receivables	**149,011**	214,717
Allowance for credit loss	**(1,726)**	(3,544)
	147,285	211,173
Bills receivables	**4,186**	6,807
	151,471	217,980

Note:

(i) The Group's trading terms with its customers are mainly on credit. The credit period is generally not over 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables related to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are interest-free.

(ii) As at 31 December 2019, bills receivable of approximately HK$4,186,000 will be matured within seven months after the end of the reporting period. All the bills receivables are dominated in RMB.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Within 60 days	**113,550**	130,699
61 to 90 days	**33,735**	37,550
Over 90 days	**–**	42,924
	147,285	211,173

The movements in the allowance for credit loss of trade receivables are as follows:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
At the beginning of year	**3,544**	17,483
Effect of adoption of HKFRS 9	**–**	3,968
At the beginning of year	**3,544**	21,451
Allowance for credit loss reversed	**(1,972)**	(249)
Disposal of discontinued operations	**–**	(17,453)
Exchange difference	**154**	(205)
At the end of year	**1,726**	3,544

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

11. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice dates, is as follows:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Within 60 days	**29,319**	30,667
61 to 90 days	**696**	2,122
Over 90 days	**17,978**	9,060
	47,993	41,849

The trade payables are non-interest-bearing and are normally settled within 180-day terms.

12. CONVERTIBLE BOND

On 30 November 2017, as part of consideration for the acquisition of the Fullocean Group, the Company has issued convertible bonds which bear an interest of 4% per annum payable in arrear semi-annually with aggregate principal amount of HK$420,000,000 pursuant to the sale and purchase agreement entered into by Capital Idea Investments Limited ("CIIL"), Sure Sino Global Limited ("Sure Sino"), Century Sunshine Group Holdings Limited and the Company.

On 15 January 2020, the existing holders of the Convertible Bonds agreed to extend the maturity date, subject to the certain undertakings given by the Company, for a further three years to 31 January 2023. Convertible Bonds with principal amount of HK$420,000,000 were extended to 31 January 2023, subject to the approval from the independent shareholders of Company on 11 March 2020. The interest Rate of Convertible Bonds will be changed from 4% per annum to 3% per annum from (and including) 1 December 2020 thereof up to (and excluding) 31 January 2023. Details of these are set out in the Company's announcements dated 18 February 2020 and 11 March 2020.

According to the Group's accounting policy, the convertible bonds are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. The fair value assessment of the convertible bonds was performed by an independent professional valuer. The equity element is presented in equity under the heading of "convertible bond equity reserve". The effective interest rate of the liability element on initial recognition is 14.6% per annum.

For more details of the terms of convertible bonds, please refer to the circular dated on 26 October 2017, 18 February 2020 and 11 March 2020.

13. SHARE CAPITAL

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Authorised:		
13,000,000,000 (2018: 10,000,000,000)		
ordinary shares of HK$0.10 each	**1,300,000**	1,000,000
Issued and fully paid:		
6,574,390,058 (2018: 6,574,390,058)		
ordinary shares of HK$0.10 each	**657,439**	657,439

There were no movements in the Company's issued ordinary shares during the years ended 31 December 2019 and 2018. The authorised share capital of the Company was increased to HK$1,300,000,000 divided into 13,000,000,000 Shares pursuant to the resolutions passed in the general meeting of Company dated 26 June 2019.

14. EVENTS AFTER THE REPORTING PERIOD

The coronavirus disease 2019 ("COVID-19") outbreak since early 2020 has brought additional uncertainties in the global macroeconomic situation. Despite the challenges, governments and international organisations have implemented a series of measures to contain the epidemic. The directors of the Company will closely monitor the development of the epidemic and assess its impact on the operation of the Group.

On 15 January 2020, the existing holders of the Convertible Bonds agreed to extend the maturity date, subject to the certain undertakings given by the Company, for a further three years to 31 January 2023. Convertible Bonds with principal amount of HK$420,000,000 were extended to 31 January 2023, subject to the approval from the independent shareholders of Company on 11 March 2020. The interest Rate of Convertible Bonds will be changed from 4% per annum to 3% per annum from (and including) 1 December 2020 thereof up to (and excluding) 31 January 2023. Details of these are set out in the Company' s announcements dated 18 February 2020 and 11 March 2020.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to restrictions in force in parts of China to combat the COVID-19 coronavirus outbreak. The unaudited results contained herein have not been agreed by the Company's auditors. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants. The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2019, the economic growth has been dragged down due to the US-China trade tensions and other factors which affected the manufacturers' business. Amid such challenges, the Group was still forging ahead and sought for steady development with the great effort by all the staff. The Group has seized the opportunity of high-performance magnesium alloys being listed as the encouraged industry by the PRC government. We strive to create higher return for our shareholders by focusing on the development of magnesium product business and the technological innovation, proactively optimising the product mix and increasing the proportion of revenue of high-performance magnesium alloy.

During the Year, the revenue of the Group was HK$1,515,291,000 (2018: HK$1,537,781,000), representing a year-on-year decline of 1.5%; the overall gross profit margin increased 0.9% to 27.5%, profit attributable to shareholders was HK$209,732,000 (2018: HK$217,691,000), representing a decrease of 3.7% year on year.

The declines in revenue and profit were due to the impact of devaluation of RMB currency to HK dollar exchange rate by about 4.2% on the accounting settlement of consolidated statements; total sales volume slightly declined to 60,559 tonnes during the Review Period from 61,463 tonnes in 2018. Nevertheless, the Group has still maintained the core competitiveness of high gross margin rare earth magnesium alloy products, driving up the growth of gross margin. Profit attributable to shareholders has been decreased mainly due to the increase in administrative cost arising from the one-off cost of share option clearing of approximately HK$19,415,000 for the offering of share option during the Year. After excluding the cost, the EBITDA (recurring) of the Year has increased HK$18,245,000 or 4.3% to HK$447,150,000 (2018: 428,905,000), which realised the growth of core profits and strong cashflow of the Group.

Core Competitiveness Driven by Effective Product Differentiation Strategy

Commodities such as magnesium ingots and basic magnesium alloys, whose price fluctuates along with market conditions, are easily affected by the external environment. However, the Group takes advantages of its patented technologies and mature production process to provide customers with a variety of magnesium products from low end to high end, so as to meet customers' different needs for magnesium alloy new materials.

The Group focuses on the development of high-end magnesium alloys products by leveraging on the patented technologies and production processes from intermediate alloys to applied alloys. Relying on more R&D investment and the long-term strategic partnership with the top R&D institutions specializing in rare earth magnesium alloy in China, the Group has made remarkable results by using differentiation competitive strategy and made breakthrough on key technology and products innovation. In the future, the Group will continue to consolidate and deepen the technical strength of the professional team, accelerate the industrialization of the scientific payoffs, focus on the goals and differentiation competition by continuous innovation to enhance the core competitiveness of the Group and hence making contribution to the Group's profitability.

High-quality Customers Loyalty and Optimization of Financial Structure

The Group's products are placed in the upstream of the industrial chain and well recognised by a wide range of customers due to the business model of reliable quality, various selections and customized products solutions. Currently, the Group's sales network covers mainland China and overseas.

After years of efforts in seeking and building partnership with new customers, the Group was able to accumulate and retain numerous high-quality customers. During the Year, the Group has also built partnership with many large and medium-sized aluminum processing enterprises and magnesium forging and processing enterprises in China. Meanwhile, the Group has enhanced customer risk control management, significantly reduced its days of accounts receivable from an average 55 days to 44 days during the Year.

Innovative Vertical Retorts Smelting Technology to Further Improve Production Efficiency

Our production base in Xinjiang has been recognized as a national-level "High and Advanced Technology Enterprise". We highly value technological innovation, and have adopted the advanced vertical retorts smelting technology to promote the optimization and upgrading of magnesium smelting process, and move towards the direction of mechanization, automation and humanization of our production system. By making full use of the advanced manufacturing process, we are able to effectively improve energy conservation and environmental protection, thereby significantly relieving the pressure on human power and further reducing production costs and improving production efficiency. The Group will take the opportunity of the promotion and application of vertical retorts smelting technology; leverage on advantages of resources and location in Hami region; accelerate the pace of industrial optimization; continue accumulating new drivers of high-quality development of the Group through technological innovation; enhance the core competitiveness of enterprises, and lead the magnesium industry to high and advanced development.

Broad Prospects for Magnesium Alloy Application to Realise the Automobile Lightweight

Magnesium alloys are featured with light weight (75% lighter than steel, 33% lighter than aluminum, the lightest structural engineering material so far), higher density, higher intensity, stronger vibration damping, better noise reduction ability, excellent electromagnetic shielding performance, resistance to radiation, and environmental protection, etc. These characteristics enable its application in areas such as transportation, 3C electronics, aviation and aerospace, medical fields and so on. Magnesium alloys are cost-effective and the reserves of upstream raw materials are abundant. With the depletion of other metals resources, it is expected that magnesium products will become the best alternative to other light-metal structural materials.

Low carbon, energy conservation and emission reduction are being advocated in various countries around the world. Stringent exhaust emission regulations set higher requirements for the production of automobiles. Lightweight in automotive industry has become an important direction in achieving energy saving and emission reduction. According to test data, 100kg reduction of the weight of an automobile can save 0.7L fuel consumption per hundred kilometers. That is, for every 10% reduction in weight, fuel efficiency can be improved by 6%-10%, and for every 10% reduction in weight on new energy vehicles, endurance can be improved by 5%-8%. In the current R&D and manufacturing of automobiles, determining reasonable weight of an automobile determines has become a key indicator for material selection. As an emerging lightweight metal material, magnesium alloys have high quality performance and weight reduction ability is better than steel and aluminum alloy, which make it the best solution to reduce weight in automobile.

With continuous breakthroughs of the development of magnesium alloys and, many technological difficulties being solved, automotive parts that can be produced by magnesium alloys continue to rise and the proportion of magnesium alloys used in automobiles have significantly increased. It is known that the automotive market in some developed countries have already adopted a large amount of magnesium-alloy auto parts to manufacture new-type cars; in some instances, as much as 40kg per car. At present, the average amount of magnesium used per car is only 5kg in China, which reflects the huge space for future exponential growth of the magnesium in the application of automobiles weight reduction.

Outlook

Magnesium alloys has been the latest topic for research globally and is known as the "most developed and widely used light-weight eco-friendly strategic new material of the 21st century". Magnesium is the most abundant metal element on the earth and in the ocean. There are abundant magnesium resources in China with strong ability in sustainable development and resource protection. Magnesium is also one of the few metals in China that can keep up with the pace of development with the rest of the world. Magnesium alloys are regarded as the top three metal contractual material named after steel and aluminum alloys. It can be widely used in the fields of transportation, 3C electronics, aviation and aerospace, medical, etc. Its outstanding performance will attract attention, vigorous development and wide application in the "green economy" age. With the rapid development of 5G and lightweight of automobile, there will be greater market demands for the application of magnesium alloys.

The Group will fully seize the opportunity for the development of the magnesium alloy industry, focus on technological innovation and R&D, strengthen its differentiation competitive strategy, and build a strong position as the leader of the high performance rare earth magnesium alloy new materials segment. In early 2020, the Group was awarded as "The Best Small and Medium Sized Company" jointly issued by Zhitong Caijing, a financial news platform for Hong Kong and US stock market, and Straight Flush ("同花順財經" in Chinese). This accolade motivated our management team to accelerate the industrial upgrading and optimization, and improve the scale of magnesium alloy production capacity and the construction of projects. We will continue to provide our customers with better services and further enhance our comprehensive competitiveness and profitability to build a better future for all.

In early 2020, there was an outbreak of Coronavirus Disease in various regions of China. The Chinese government had taken the most stringent epidemic preventive measures ever to contain the spread of the virus. Many provinces and cities initiated the first-level response to a major public health emergency and imposed tighter regulation on traffic control, which included extending the Chinese New Year holiday and postponing the time for workers to return to work. These measures resulted in a temporarily shut down in both economic and social activities. Production and sales are temporarily affected due to factors such as the failure of workers to return to work on time and the suspended transportation which disrupted the freight and logistics of products. With the improvement in epidemic prevention and control measures, the Chinese Government has successively introduced relevant policies and measures with emphasis on the need to effectively maintain the normal economic and social order. In response to the call of the Government and under premise of various epidemic prevention and control measures to ensure health and safety of our employees, the Group has been able to gradually resume work and maintain normal operation and production in mid-February 2020. All employees of the Group worked together to carry out a variety of stabilization tasks and adjust contingency plan for customers in a timely manner to minimize the impact of the outbreak of Coronavirus Disease on the operation.

Financial and Business Summary

	2019	2018	2017
	HK$'000	HK$'000	HK$'000
	(Unaudited)	*(Audited)*	*(Audited)*
Statement of profit or loss			
Operating revenue	**1,515,291**	1,537,781	1,158,261
Gross profit	**416,206**	409,483	303,137
Gross profit margin	**27.5%**	26.6%	26.2%
EBITDA (recurring)	**447,150**	428,905	394,212
EBITDA margin	**29.5%**	27.9%	25.4%
Profit attributable to owners of the Company	**209,732**	217,691	162,069
Net profit margin	**13.8%**	14.2%	14.0%
Balance sheet			
Total asset	**2,554,324**	2,372,218	2,558,801
Total equity	**1,387,887**	1,271,217	1,123,244
Cash at banks	**271,690**	156,008	206,835
Indicators			
Gearing ratio	**34.2%**	30.6%	30.5%
EBITDA/Interest	**6.20**	5.87	17.62
Return on equity	**15.1%**	17.1%	14.4%
Proposed final dividend per share	**HK$0.60 cents**	HK$0.50 cents	—
Dividend payment ratio*	**18.8%**	15.1%	—

* Based on the issued ordinary shares of 6,574,390,058 shares as at 31 December 2019.

Other operating expenses analysis

Selling and distribution expenses

Selling and distribution expenses were approximately HK$15,615,000 (2018: HK$15,328,000), which mainly comprised of market operation expenses and sales staff wages. Selling and distribution expenses to income ratio was approximately 1.0% (2018: 1.0%).

Administrative expenses

Administrative expenses were mainly comprised of expenses such as staff remuneration, depreciation and amortization, audit and professional fees and research and development. The administrative expense for the year was approximately HK$77,551,000 (2018: HK$57,098,000), representing a year-on-year increase of approximately HK$20,453,000 or 36%. The increase in administrative expense was mainly due to equity-settled share-based payments of approximately HK$19,415,000 included in the year resulting from the Options granted by the Company.

Finance costs

Finance cost was approximately HK$72,064,000 (2018: HK$73,058,000), representing a year-on-year decrease of approximately HK$994,000 or 1.4%. Of which approximately HK$51,536,000 (2018: HK$47,021,000) was the accounting interest of the Convertible Bonds issued to Controlling Shareholder Ming Xin Developments Limited. As Convertible Bonds comprise conversion rights, its accounting interest will be consolidated into the unaudited Consolidated Financial Statement of the Company at fair value. The effective interest of Convertible Bonds payable pay annum was 4%, i.e. HK$16,800,000 (2018: HK$16,800,000).

On 15 January 2020, the Company and Ming Xin Developments Limited agreed on the amendment of certain conditions of the Convertible Bonds as follows:

(1) Maturity Date extended from 30 November 2020 to 31 January 2023.

(2) Interest Rate per annum from 1 December 2020 up to 31 January 2023 reduced from 4% to 3%.

The proposed amendments were passed at the Extraordinary General Meeting convened at 11 March 2020. For details, please refer to the announcement and circular of the Company published on HKEx website at 15 January 2020 and 18 February 2020.

Liquidity and Financial Resources

The EBITDA of the Group was HK$447,150,000 (2018: HK$428,905,000), representing a year-on-year increase of 4.3%. The interest coverage increased to 6.20 times, and the Group has sufficient operating profit to cover borrowing interest. As the Group has strict cash flow internal management measures to control borrowings, basic operating profits can cover basic expenses. Therefore, the Group’s borrowing rate/gearing ratio is maintained at a reasonable level of 34.2%. At the end of period under review, cash in bank was HK$271,690,000, representing year-on-year growth of 74.2%. A final dividend of HK0.60 cents will be declared to the shareholders of the Company for the year ended 31 December 2019 (2018: HK0.50 cents). The dividend payout ratio increased from 15.1% to 18.8%. The Group always adheres to the principle of honesty, emphasizes the importance of shareholder interests, and values the returns to shareholders.

FOREIGN CURRENCIES AND TREASURY POLICY

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, United States dollars or Renminbi. The usual treasury policy of the Group is to manage significant currency exposure and minimize currency risk whenever it may have material impact to the Group. During the last twelve months period, the Group did not engage in any interest rate or currencies speculations.

EMPLOYEES RELATIONS

As at 31 December 2019, the Group has 722 employees (2018: 686 employees). In addition to remuneration, the Group also provides annual leave, medical insurance, provident fund and other fringe benefits for its staff.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2019, a permitted indemnity provision as defined in the Hong Kong Companies Ordinance was in force for an indemnity against liability incurred by the Directors.

DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Directors nor a connected entity of Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which any of the Company’s holding companies, subsidiaries or fellow subsidiaries was a party during the year.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2019, the Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), save for the deviations as follows:

Under code provision A.6.7, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders.

— Professor Meng Jian (being a non-executive Director), Dr. Tam Wai Ho JP (being a non-executive Director) and Mr. Kwan Ngai Kit (being an independent non-Director) were unable to attend the general meetings held on 26 June 2019 as he was obliged to be away for other matters.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct of the Group regarding securities transactions of the directors of the Company (the "Directors") on terms no less exactly than required standard set out in the Model Code. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2019.

FINAL DIVIDEND

The Board recommends the payment of final dividend to Shareholders for the year ended 31 December 2019 of HK$0.60 cents. The final dividend is subject to the shareholders' approval at the forthcoming annual general meeting for 2019 (the "AGM") of the Company and the audited results of the Group for the year ended 31 December 2019.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting (and the proposed arrangements relating to dividend payment, if any). In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 31 March 2020

As at the date of this announcement, the executive Directors are Mr. Shum Sai Chit and Mr. Chi Jing Chao; non-executive Directors are Professor Meng Jian and Dr. Tam Wai Ho, Samson JP, independent non-executive Directors are Mr. Kwong Ping Man, Mr. Cheung Sound Poon and Mr. Kwan Ngai Kit.