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稀鎂科技
REMT

稀鎂科技集團控股有限公司

RARE EARTH MAGNESIUM TECHNOLOGY GROUP HOLDINGS LIMITED

(in provisional liquidation)

(for restructuring purposes only)

(Incorporated in Bermuda with limited liability)

(Stock Code: 601)

2021 INTERIM RESULTS ANNOUNCEMENT

RESULTS

The board of directors (the “Board”) of Rare Earth Magnesium Technology Group Holdings Limited (the “Company” or “REMT”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2021 (“Review Period”), together with the comparative figures for the corresponding period in 2020 as follows.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Revenue	3	182,632	368,178
Cost of sales		(161,700)	(292,713)
Gross profit		20,932	75,465
Other income and gains, net		10,467	4,964
Selling and distribution costs		(1,982)	(4,860)
Administrative expenses		(49,424)	(32,595)
Finance costs	4	(25,632)	(45,769)
Loss before tax	5	(45,639)	(2,795)
Income tax expenses	6	(1,016)	(9,645)
Loss for the period and attributable to owners of the Company		(46,655)	(12,440)

	Six months ended 30 June 2021	Six months ended 30 June 2020
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Other comprehensive income/(loss)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	<u>22,923</u>	<u>(45,658)</u>
Total comprehensive loss for the period and attributable to owners of the Company	<u>(23,732)</u>	<u>(58,098)</u>
Loss per share:		
— basic and diluted	8 <u>(0.71 cents)</u>	<u>(0.19 cents)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

		30 June 2021 <i>HK\$'000</i> (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	1,699,468	1,650,042
Right-of-use assets		52,506	52,981
Intangible assets		30,059	32,141
Mining rights		49,073	48,760
		<u>1,831,106</u>	<u>1,783,924</u>
Total non-current assets			
CURRENT ASSETS			
Inventories		274,602	287,135
Trade and bills receivables	10	156,777	172,292
Prepayments, deposits and other receivables		241,919	256,753
Tax receivable		1,763	10,439
Pledged bank deposits		10,290	10,185
Bank and cash balances		7,086	36,104
		<u>692,437</u>	<u>772,908</u>
Total current assets			
CURRENT LIABILITIES			
Trade payables	11	14,040	36,216
Other payables and accruals		85,480	72,603
Contract liabilities		9,902	13,993
Borrowings	12	873,316	796,938
Amount due to a shareholder		34,559	33,959
Tax payable		415	—
		<u>1,017,712</u>	<u>953,709</u>
Total current liabilities			
NET CURRENT LIABILITIES		(325,275)	(180,801)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,505,831	1,603,123

		30 June	31 December
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Deferred revenue		73,585	72,834
Borrowings	<i>12</i>	—	75,381
Deferred tax liabilities		2,894	2,986
		<hr/>	<hr/>
Total non-current liabilities		76,479	151,201
		<hr/>	<hr/>
Net assets		1,429,352	1,451,922
		<hr/>	<hr/>
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		658,439	658,439
Reserves		770,913	793,483
		<hr/>	<hr/>
Total equity		1,429,352	1,451,922
		<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. BASIS OF PREPARATION

The condensed consolidated financial statements are unaudited and have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

On 3 July 2020, the Company announced (i) Century Sunshine Group Holding Limited (“CS”), the controlling shareholder of the Company, defaulted in the redemption of its SGD101.75 million in principal amount of subordinated notes (the “CS Payment Default”); (ii) the Company had received on 30 June 2020 a demand from one of the bank creditors for the repayment of borrowings of the Company or its subsidiaries of approximately HK\$22.75 million plus interest accrued and believed it was likely to receive further calls from its creditors; (iii) the CS Payment Default constituted an event of default in respect of certain borrowings of the Group, which became immediately payable on demand; (iv) a winding-up petition has been filed on 3 July 2020 to the Supreme Court of Bermuda on behalf of the Company together with an application for the appointment of joint provisional liquidators (“JPLs”) on a “light touch” basis that the board of directors of the Company (the “Board”) will retain management of the Company while the JPLs 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 (the “Proposed Restructuring Plan”) including to maintain the listing of the Company on the Stock Exchange of the Hong Kong Limited.

On 16 July 2020, an order was granted by the Supreme Court of Bermuda for the appointment of Mr. Yen Ching Wai David and Ms. So Kit Yee Anita of Ernst & Young Transactions Limited, Mr. Roy Bailey of Ernst & Young, and Ms. Tammy Karina Fu of EY Cayman Ltd as JPLs of the Company with the power to act jointly and severally. On 7 August 2020, the Bermuda Court also accepted the resignation of Mr. Yen Ching Wai David. The JPLs appointment order remains in force in respect of Mr. Roy Bailey, Ms. Tammy Karina Fu and Ms. So Kit Yee Anita as JPLs.

On 25 August 2020, the High Court of The Hong Kong Special Administrative Region has granted the recognition order in respect of the appointment and powers of the JPLs in Hong Kong.

Going Concern

During the period ended 30 June 2021, the Group recorded loss of approximately HK\$46,655,000, and, as of that date, the Group’s current liabilities exceeded its current assets by approximately HK\$325,275,000. Further, as at 30 June 2021, the Group’s current borrowings amounted to approximately HK\$873,316,000 while its cash and cash equivalents only amounted to approximately HK\$7,086,000. As stated in note (1) to the consolidated financial statements, CS had defaulted in repayment of its bonds of principal amount of SGD101.75 million plus interests accrued when they fell due on their maturity date on 3 July 2020 and the Company had received demand from one of its bank creditors for repayment of the borrowings of the Group of approximately HK\$22.87 million. The Group could not fulfil certain covenants relating to certain borrowings amounting to approximately HK\$837,421,000 as at 30 June 2021, which have become repayable on demand and are presented as current liabilities in the consolidated statement of financial position. Included in the borrowings of the Group were borrowings of approximately HK\$231,470,000 which the lender have commenced litigations against the Group to repay the outstanding balances.

The conditions described above indicate the existence of a material uncertainty that cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Company is actively exploring options to restructure the debts of the Group 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. The Company is actively considering to develop a viable Proposed Restructuring Plan, including but not limited to some or all of the followings:

1. equity restructuring to facilitate the raising of cash for the Company from third party investors through equity issue.
2. a debt restructuring that may involve refinancing and/or a compromise or arrangement of debts and liabilities of the Group.

It is expected that the Proposed Restructuring Plan will be implemented by way of Schemes of Arrangement (the "Schemes") with the creditors of the companies in provisional liquidation, including the Company. The Schemes are likely subject to the sanctions of the relevant courts.

3. potential investment in the Company from one or more third party investor(s) to facilitate raising of cash for the Company and potential disposal of non-core business and non-operating fixed assets of the Group.
4. In addition, the Company plans to implement further cost control measures on capital investments, production and administrative operations to reduce overall operating costs of the Group.

Among all viable options as disclosed above, the management of the Company is actively negotiating with the JPLs and the creditors as debt restructuring by way of scheme of arrangement, tentatively involving, among others, equity-to-debt swap and extension of repayment period. The Company will update the shareholders by way of announcement(s) when there is any material development on the restructuring.

The directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on going concern basis. These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group being able to successfully negotiate and agree with the creditors to renew or extend the existing borrowings or complete debt financing to provide funds for the Group to meet its liabilities as they fall due. This in turn is dependent upon (i) the JPLs and the Company being able to finalise the Proposed Restructuring Plan after consultations with the creditors of the Group; and (ii) the sanctions of the Schemes will be successfully obtained from the relevant courts.

As at the date of approval for issuance of the consolidated financial statements, the Proposed Restructuring Plan has not been formulated yet and the eventual outcome of the Proposed Restructuring Plan cannot be determined with reasonable certainty. Accordingly, the material uncertainty that cast significant doubt on the Group's ability to continue as a going concern remains in existence as at the date of approval for issuance of the consolidated financial statements. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statement to write down the carrying values of the Group's assets to their recoverable amounts, to

provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. 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. The Group is principally engaged in one single segment, which is manufacturing and selling magnesium related products during the period ended 30 June 2021 and 30 June 2020. 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.

4. FINANCE COSTS

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Interest on bank and other borrowings wholly repayable within five years	25,632	18,100
Interest on convertible bonds	—	27,669
	<u>25,632</u>	<u>45,769</u>

5. LOSS BEFORE INCOME TAX

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
The Group's loss before income tax has been arrived at after charging/(crediting):		
Depreciation	54,850	48,575
Amortisation of intangible assets	2,419	2,239
Amortisation of mining rights	190	175
Depreciation of right-of-use assets	1,023	796
Bank interest income	(433)	(352)

6. INCOME TAX EXPENSES

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Current tax:		
— PRC Enterprise Income Tax	1,095	9,719
Deferred taxation	(79)	(74)
	<u>1,016</u>	<u>9,645</u>

7. DIVIDEND

The Board does not recommend any payment of interim dividend to shareholders for the six months ended 30 June 2021 (30 June 2020: Nil).

8. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the Company of HK\$46,655,000 (2020: HK\$12,440,000) and the weighted average number of ordinary shares of 6,584,390,000 (2020: 6,583,598,000) during the period.

Diluted loss per share for the six months ended 30 June 2021 and 30 June 2020 was the same as the basic loss per share as the share options outstanding had anti-dilutive effects on the basic loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group had an addition to property, plant and equipment amounted to HK\$89,225,000 (30 June 2020: HK\$6,977,000).

During the six months ended 30 June 2021, the Group disposed of property, plant and equipment with a carrying amount of approximately HK\$1,870,000 for the net proceeds of approximately HK\$6,899,000. No disposal of property, plant and equipment was incurred during the six months ended 30 June 2020.

10. TRADE AND BILLS RECEIVABLES

	30 June 2021 <i>HK\$'000</i> (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
Trade receivables	161,430	168,676
Allowance for expected credit loss	(5,730)	(3,490)
	<u>155,700</u>	<u>165,186</u>
Bill receivables	1,077	7,106
	<u>156,777</u>	<u>172,292</u>

The Group allows an credit period of not more than 180 days to its trade customers.

The following is an aged analysis of trade receivables, based on invoice date:

	30 June 2021 <i>HK\$'000</i> (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
0 – 60 days	26,927	87,468
61 – 90 days	17,065	49,275
91 – 180 days	42,716	28,443
181 days – less than 1 year	68,992	—
	<u>155,700</u>	<u>165,186</u>

11. TRADE PAYABLES

The following is an aged analysis of trade payables, based on invoice date:

	30 June 2021 <i>HK\$'000</i> (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
0 – 60 days	3,107	18,777
61 – 90 days	979	3,257
Over 90 days	9,954	14,182
	<u>14,040</u>	<u>36,216</u>

12. BORROWINGS

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Bank borrowings	135,256	134,524
Other borrowings (<i>note (ii) and (iii)</i>)	738,060	737,795
	<u>873,316</u>	<u>872,319</u>
Borrowings:		
Due within one year or on demand	873,316	796,938
Due within a period of more than one year but not exceeding two years	—	75,381
	<u>873,316</u>	<u>872,319</u>
Less: Amounts shown under non-current liabilities	—	(75,381)
	<u>873,316</u>	<u>796,938</u>
Amounts shown under current liabilities	873,316	796,938
Less: The carrying amount of bank and other borrowings that are repayable on demand due to breach of loan covenants (shown under current liabilities) (<i>note vi</i>)	(837,421)	(760,580)
	<u>35,895</u>	<u>36,358</u>
Amounts shown under current liabilities for the bank and other borrowings that are repayable within one year or on demand (<i>note v</i>)	35,895	36,358
Borrowings:		
Secured (<i>note (i) and (iii)</i>)	254,637	253,848
Unsecured	618,679	618,471
	<u>873,316</u>	<u>872,319</u>

Note:

- (i) Secured borrowing of approximately HK\$212,471,000 (31 December 2020: HK\$211,739,000) were guaranteed by the corporate guarantee of a fellow subsidiary and pledged property, plant and equipment of approximately HK\$346,607,000 and right-of-use assets of approximately HK\$52,506,000 (31 December 2020: property, plant and equipment of approximately HK\$371,440,000 and right-of-use assets of approximately HK\$52,981,000).
- (ii) Included in other borrowings was (a) International Finance Corporation (“IFC”) loan of approximately HK\$42,166,000 (31 December 2020: HK\$42,109,000); (b) bond of approximately HK\$275,894,000 (31 December 2020: HK\$275,686,000) and (c) bond from the immediate shareholder, Ming Xing Developments Limited of HK\$420,000,000.

- (iii) The loan from IFC of approximately HK\$42,166,000 (31 December 2020: HK\$42,109,000) was secured by (i) corporate guarantee given by Century Sunshine Group Holdings Limited; and (ii) pledged of shares in Century Sunshine Group Holdings Limited as owned by Alpha Sino International Limited (“Alpha Sino”), the substantial shareholder; (iii) deposit with banks of approximately HK\$10,290,000 (31 December 2020: HK\$10,185,000).
- (iv) The weighted effective interest rate of bank borrowing and other borrowing as at 30 June 2021 is approximately 8.12% (31 December 2020: 8.02%).
- (v) The amounts due are based on scheduled repayment dates set out in the loan agreements.
- (vi) Certain of the Group’s facilities were subject to the fulfillment of covenants as are commonly found in lending arrangements. On 3 July 2020, the Company announced CS, the controlling shareholder of the Company, defaulted in the redemption of its subordinated notes of SGD101.75 million in principal amount. As a result, the Group could not fulfill covenants on certain borrowings with an aggregate amount of HK\$837,421,000. Included in this amount, borrowings of an aggregate amount of HK\$837,421,000 were classified as current liabilities in the consolidated statement of financial position as at 30 June 2021. The Group is negotiating with the borrowers to refinancing the borrowings at the end of reporting period. As at the date of approval of the consolidated financial statements, the aforesaid borrowings were not yet renewed nor repaid.

13. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, non-interest-bearing and has no fixed terms of repayment.

14. COMMITMENTS

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	<u>26,823</u>	<u>13,266</u>

15. MATERIAL RELATED PARTY TRANSACTION

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Year ended 30 June 2021	Year ended 30 June 2020
	Notes	HK\$'000	HK\$'000
Management fee paid to an intermediate holding company	(i)	<u>600</u>	<u>600</u>

Notes:

- (i) The management fee paid to an intermediate holding company was charged at a monthly rate of HK\$100,000 (2020: HK\$100,000).

The Directors confirm that the transactions under “management fee paid to an intermediate holding company” set forth are fully exempt from the reporting, announcement, circular and shareholders’ approval requirements under Rule 14A.73 and Rule 14A.76 of the Listing Rules.

- (b) As at 30 June 2021, the amount due to a shareholder is approximately HK\$34,559,000 (31 December 2020: HK\$33,959,000). The amount is unsecured, non-interest bearing and have no fixed terms of repayment (note 13).

The Directors confirm that the transaction under “amount due to a shareholder” set forth was conducted on normal commercial terms or better, and not secured by the assets of the Group, and thus are fully exempt from the reporting, announcement, circular and shareholders’ approval requirements under Rule 14A.73 and Rule 14A.90 of the Listing Rules.

- (c) During the six months ended 30 June 2021, the compensation to key management amounts to HK\$95,000 (30 June 2020: HK\$95,000) representing director’s remuneration.
- (d) As at 30 June 2021, 白山市天安金屬鎂礦業有限公司 (Baishan City Tianan Magnesium Resources Co., Ltd.*) and 新疆騰翔鎂製品有限公司 (Xinjiang Tengxiang Magnesium Products Company Limited*), the indirect wholly-owned subsidiaries of the Company, entered into guarantee agreements with a bank to guarantee the payment obligations of 山東紅日化工股份有限公司 (Shandong Hongri Chemical Joint Stock Company Limited*) (“Shandong Hongri”), an indirect non-wholly owned subsidiary of Century Sunshine Group Holdings Limited (the controlling shareholder of the Company), in respect of the loans amounting to RMB124.96 million advanced by that bank under the loan agreements. Shandong Hongri is accordingly a connected person of the Company under Chapter 14A of the Listing Rules, and the guarantees constituted connected transactions of the Company under the Listing Rules and were subject to the reporting, announcement requirements and independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

As explained in the announcements of the Company published on 1 August 2021, the management of the Company involved in the guarantee at the relevant time failed to realize that the provision of the guarantee had fallen within the ambit of Chapter 14 and Chapter 14A of the Listing Rules and therefore, the Company had not complied with the reporting, announcement requirements and independent shareholders' approval requirement in respect of the Guarantees at the relevant time. The Company is taking various remedial measures to resolve such matters.

Save as disclosed in the item (a), (b) and (d), the Directors consider that the other related party transactions disclosed in the Note 15 and elsewhere in these financial statements do not fall under the definition of "connected transaction" in Chapter 14A of the Listing Rules.

16. CONTINGENT LIABILITIES

Reference was made to the announcement of the Company dated 1 August 2021, the Company received a written ruling (the "Ruling") from Linyi Intermediate People's Court ("Linyi Court") regarding a PRC bank's application to enforce guarantees of loans amounting to RMB124.96 million granted to Shandong Hongri by the bank that have been provided by certain subsidiaries of the Group and Ms. Chi Bi Fen, the former legal representative of Shandong Hongri.

The Ruling stated that bank deposits of the certain subsidiaries of the Group and Ms. Chi Bi Fen in total sum of approximately RMB125 million or assets of equivalent value may be frozen for periods of up to one year (if cash), two years (if moveable assets) and three years (if immovable property or other types of assets). The Bank applied for 13 plots of land owned by Shandong Hongri to be frozen pursuant to the Ruling. On 26 July 2021, Shandong Hongri received a copy of a notice for assistance for enforcement (協助執行通知書) dated 21 July 2021 from Linyi Court to Linyi Immovable Assets Registration Centre (the "Registry") requiring the assistance of the Registry in order to enforce the ruling by "freezing" three plots of land owned by Shandong Hongri (the "Frozen Assets") for the period between 21 July 2021 and 20 July 2024.

As advised by PRC counsels of the Company that, in deciding whether or not to grant any such order and the scope of such order, the Linyi Court is required to have regard to the following requirements: (i) the value of the relevant asset that is to be "frozen" must not be excessive in the context of the payment obligations to which the ruling relates, unless the asset is indivisible and there are no alternative assets of sufficient value to satisfy such payment obligations; and (ii) if multiple assets are available for "freezing", the order should apply to those assets which if frozen would least impact the production activities of the party concerned. Having considered, (i) to the best knowledge of the Company, the aggregate value of the Frozen Assets (after taking account the value of the Land after its change of use and other liabilities that were secured by the Frozen Assets) is not less than RMB125 million; and (ii) the Linyi Court has ordered the freezing of 3 plots of land, instead of 13 plots of land that were the subject of the bank's application, the Company believes that there is low risk of further freezing orders at this stage. In view of the foregoing and the fact that the Frozen Assets belong to Shandong Hongri which has no operations and absent unforeseen circumstances, the Company did not expect the ruling to have a material adverse impact on the business operations of the Group that are subject to the Ruling.

17. LITIGATIONS

- (a) Reference is made to the disclosure in Note 1 of these financial statements, in terms of the CS's payment default and the cross defaults constitute 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 Company anticipate that it is unlikely to be able to refinance its offshore borrowings that will fall due in the next couple of months. Further announcement(s) will be made by the Company to update the shareholders and investors of the Company in relation to any developments on the financial reorganization and related material legal proceedings.
- (b) On 25 February 2021, the Company received a petition (the "Petition") filed by AI Global Investment SPC acting on behalf of and for the account of AI Investment Fund S.P. (the "Petitioner") on 22 February 2021 against the Company in the High Court for an order that the Company be wound up by the High Court. The Petition was filed against the Company for its failure to repay the Petitioner an outstanding principal of the notes together with the unpaid interest and default interest in an aggregate amount of US\$20,707,777.78, which was pursuant to a subscription agreement of 7% unsubordinated and unsecured notes due 2020 in a principal amount of US\$20,000,000 entered into between the Petitioner as the subscriber and the Company as the issuer dated 7 August 2017. On 2 June 2021, the High Court has further ordered that the hearing of the Petition has been adjourned to 15 September 2021 before the Companies Judge.
- (c) On 2 June 2021, a PRC subsidiary were served by a writ of summons (the "Writ") in a court in PRC by a PRC bank against the PRC subsidiary for its non-compliance to the terms and conditions of a loan granted. According to the Statement of Claim, the bank is pursuing claims against the PRC subsidiary for an immediate repayment of all outstanding principal and interest, in the sum of approximately RMB64,266,667, as well as the default interest thereon, further or other relief and related costs. As advised by the PRC counsels, the Company believes that there to be meritorious defences against the action of the PRC bank.

18. EVENTS AFTER THE REPORTING PERIOD

As disclosed in note 17(a), Century Sunshine Group Holding Limited received the Ruling dated 12 July 2021 from Linyi Court regarding a PRC bank's application to enforce guarantees of loans amounting to RMB124.96 million granted to Shandong Hongri by the bank that have been provided by certain subsidiaries (including the subsidiaries of the Company) and Ms. Chi Bi Fen, the former legal representative of Shandong Hongri.

Please refer to the announcements published on 1 August 2021 for details.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2021 (the “Period”), the Group’s overall revenue amounted to HK\$182,632,000, representing a decrease of approximately 50.4% compared with HK\$368,178,000 for the same period last year. The overall gross profit margin of the magnesium products business was 11.5%, representing a decrease of approximately 9percentage points compared with 20.5% for the same period last year. Total sales volume decreased from 18,674 tons in the corresponding period in 2020 to 9,353 tons in the Period. The loss after tax for the Period was HK\$46,655,000 (the loss after tax for the same period in 2020: HK\$12,440,000). As disclosed in the 2020 Annual Report, it was mainly attributable to the influence of the Group’s offshore debt restructuring and the overseas pandemic resurgence. It negatively affected the magnesium industry chain as a whole. Thus the market demand for magnesium products has not yet fully recovered.

Since the Company applied to the Supreme Court of Bermuda for provisional liquidation for debt restructuring purpose in July 2020, suppliers and customers have been more cautious about orders due to the impact of the offshore debt restructuring and the increased costs of raw materials. The turnover days of payables decreased from 29 days in the first half of 2020 to 16 days in the same period in 2021, and the receivable collection cycle extended from 95 days in the first half of 2020 to 156 days in the same period in 2021.

PROSPECT

“China strives to peak carbon dioxide emissions before 2030, and achieve carbon neutrality before 2060”. Therefore, the persistence in energy conservation and emission reduction, and development of a green and low-carbon economy is a major strategic decision for human sustainable development. The magnesium is recognised as an environmentally friendly new material, an ideal lightweight metal material to replace the aluminum alloy, and one of the most essential new materials for automotive lightweighting.

The 2020 North American Automotive Magnesium Alloys and Lightweight Strategic Outlook (《2020 年北美汽車用鎂合金及輕量化戰略展望》) issued by the North American Automotive Research Alliance, affirmed the critical mission of magnesium alloys in automotive lightweighting. It proposed the general idea of developing magnesium alloys and carbon fiber reinforced polymer technology, and provided the important guiding ideology for the development of lightweight materials. According to the Energy-saving and New Energy Vehicle Technology Roadmap 2.0 (《節能與新能源汽車技術路線圖 2.0》) compiled by China Society of Automotive Engineers, the penetration rate of new energy vehicles will reach 15–25% in 2025. It is estimated that the world’s new energy vehicle sales will reach over 11 million in 2025. As an important new lightweight material to increase the battery life of new energy vehicles, the demand for magnesium will accelerate accordingly. Thus, magnesium alloy new materials will have a massive development potential in the long run.

The management believes that in the global environment where the coronavirus vaccine is gradually promoted and with the Group's offshore debt restructuring being able to progress smoothly, we will fully benefit from the industry and policy dividends, and meet the market demand for the new lightweight materials in the post-epidemic era. We will work hard to fulfill our mission as a magnesium product enterprise: devote our tireless efforts to build a better future for all!

FINANCIAL REVIEW

	2021	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
Statement of profit or loss			
Revenue	182,632	368,178	726,229
Gross profit	20,932	75,465	206,318
Gross profit margin	11.5%	20.5%	28.4%
EBITDA (recurring)	38,475	94,759	227,126
EBITDA margin	21.1%	25.7%	31.3%
(Loss)/profit attributable to owners of the Company	(46,655)	(12,440)	116,295
Net profit margin	N/A	N/A	16.0%

OTHER OPERATING EXPENSES ANALYSIS

Selling and distribution expenses

Selling and distribution expenses were approximately HK\$1,982,000 (2020: HK\$4,860,000), which mainly comprised of marketing expenses and sales staff wages. Selling and distribution expenses to income ratio was approximately 1.1% (2020: 1.3%).

Administrative expenses

Administrative expenses mainly comprised of expenses such as staff remuneration, depreciation and amortisation, audit and professional fees, and research and development. The administrative expenses for the period was approximately HK\$49,424,000 (2020: HK\$32,595,000), representing a year-on-year increase of approximately HK\$16,829,000. The increase was mainly attributable to: (i) an increase of restructuring fees of approximately HK\$4,813,000; (ii) a decrease in production volumes in which part of the production costs (mainly comprised of depreciation expenses which are non-cash in nature) during the Period had to be reclassified from the cost of sales to administrative expenses. The depreciation and amortisation recognised as administrative expenses were amounted to HK\$16,544,000 (2020: HK\$3,525,000), netting-off (iii) the decrease in salaries and wages and R&D expenses by approximately HK\$9,978,000 due to the reduction in staff.

Finance costs

Finance cost was approximately HK\$25,632,000 (2020: HK\$45,769,000), representing a year-on-year decrease of approximately HK\$20,137,000. The decrease was mainly due to the expiry of the bond on 30 November 2020 issued to Ming Xin Developments Limited, the controlling shareholder of the Group.

Liquidity and Financial Resources

Our cash is mainly used to satisfy our needs of working capital and our capital expenditure. Our working capital needs and capital expenditure requirements have been principally financed through a combination of shareholders' equity, cash generated from operations, and borrowings. The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimize the cost of funds, the Group's treasury activities and cash and cash equivalents are generally deposited with certain financial institutions such as banks and denominated mostly in Renminbi and Hong Kong dollars.

In view of the financial position of the Company, the Company will consider possible equity fundraising opportunities in order to strengthen its capital base and ease the short-term financial stress and to enhance the liquidity position of the Group.

POSSIBLE DEBT RESTRUCTURING AND THE APPOINTMENT OF JOINT PROVISIONAL LIQUIDATORS FOR RESTRUCTURING PURPOSES

As disclosed in note 1 to this condensed consolidated financial statements, orders were granted by the Bermuda Court for the appointment of the JPLs for restructuring purposes. During the Period, the JPLs have held several creditors' committee's meeting to discuss the development of the provisional liquidation and restructuring plan. Any determination and implementation of such plan shall be subject to the agreement of the majority of creditors at the meeting and the orders granted by the Bermuda Court and the High Court. The Company will continue to maintain active communication with creditors and adopt practicable measures to unite the consensus of creditors in order to promote the implementation of the restructuring plan.

DISCLAIMER OPINION RELATING TO GOING CONCERN

In the consolidated financial statements of the Company and its subsidiaries (together as the "Group") for the year ended 31 December 2020 (the "2020 AR"), the Company's auditors issued disclaimer of opinion on the material uncertainties relating to the going concern basis ("Disclaimer of Opinion"), in which they were unable to obtain sufficient appropriate audit evidence to conclude on the appropriateness of management to use the going concern basis of accounting in the preparation of the consolidated financial statements because management's plans for future actions (the "Action Plan") in relation to its going concern assessment could not be finalised yet and therefore issued a disclaimer of opinion on the results of the Group's consolidated financial statements.

The management of the Group (the “Management”) is taking the best efforts to agree on and execute the Action Plan in 2021. Taking into account the successful and continued implementation of the proposed restructuring, the Management is satisfied that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the foreseeable future, and hence it is appropriate to prepare the Group’s consolidated financial statements on a going concern basis. The Management assessed that there is no material impact on the Group’s financial position in light of the Disclaimer of Opinion, as the going concern Issue could be resolved by the Action Plan devised.

There was no disagreement between the Board and the Auditors regarding the Disclaimer of Opinion, considering that the consolidated financial statements have been prepared by the Management on a going concern basis, the validity of which depends on the outcome of the measures under management’s assumptions, which are subject to multiple uncertainties. In all other respects, in the opinion of the Auditors, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

The Audit Committee takes the same view as the Board and agreed with the Management’s position concerning the going concern issue and Disclaimer of Opinion based on the reasons above.

MANAGEMENT’S POSITION AND BASIS ON THE GOING CONCERN ASSUMPTION

As detailed in Note 1 to this condensed consolidated financial statement, conditions existed as at 30 June 2021 indicating the existence of material uncertainties which may cast significant doubt regarding the Group’s ability to continue as a going concern. Among all viable options as disclosed, the management of the Company is actively negotiating with the JPLs and the creditors on debt restructuring by way of scheme of arrangement, tentatively involving, among others, equity-to-debt swap and extension of repayment period.

The Company will update the shareholders by way of announcement(s) when there is any material development.

As at the date of approval for issuance of the consolidated financial statements, the Proposed Restructuring Plan has not been formulated yet and the eventual outcome of the Proposed Restructuring Plan cannot be determined with reasonable certainty. Assuming the successful implementation of the proposed restructuring plan, the Board is of the opinion that the Group will have sufficient working capital to meet its financial obligation as and when they fall due in the foreseeable future. Accordingly, the condensed consolidation financial statements have been prepared on a going concern basis.

CONTINGENT LIABILITIES

As at 30 June 2021 and 31 December 2020, other than those disclosed in Note 16 to the financial statements, the Group has no other significant contingent liabilities.

FOREIGN CURRENCIES AND TREASURY POLICY

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

EMPLOYEES RELATIONS

As at 30 June 2021, the Group has 365 employees (30 June 2020: 636). In addition to salary remuneration, the Group also provides other fringe benefits such as annual leave, medical insurance and provident fund, etc. to its staff.

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 period.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Kwong Ping Man (Chairman of the Audit Committee), Mr. Cheung Sound Poon and Mr. Kwan Ngai Kit. During the period under review, the Audit Committee has held two meetings to review the accounting principles and practices adopted by the Group and discuss internal control and financial reporting matters. The Audit Committee has reviewed the unaudited consolidated interim results of the Group for the six months ended 30 June 2021.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2021, 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) were unable to attend the annual general meeting held on 30 June 2021 as he was obliged to be away for other matters.

Under code provision A.2.1, the roles of chairman and chief executive officer (the “CEO”) should be separated and should not be performed by the same individual. However, there is no separation between the roles of chairman and CEO under the current corporate structure of the Company. Mr. Shum Sai Chit currently holds a dual role as the Chairman and the CEO. Mr. Shum had been in charge of the overall management of the Company since 2015 and the Company considered that such arrangement would promote the efficient formulation and implementation of the Company’s strategies which would enable the Group to further develop its businesses effectively at this stage. The Board will review the current structure from time to time and shall make necessary arrangements when the Board considers appropriate.

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 its code of conduct regarding securities transactions by the Directors on terms no less exactly than the 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 six months ended 30 June 2021.

APPRECIATION

On behalf of the Board, I wish to thank all our shareholders, customers, suppliers and bankers for their continual support. I would also like to extend my appreciation to all the staff for their dedicated work and their contribution throughout the Review Period.

By Order of the Board
Rare Earth Magnesium Technology Group Holdings Limited
(in provisional liquidation)
(for restructuring purposes only)
Shum Sai Chit
Chairman

Hong Kong, 31 August 2021

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

Executive Directors: : *Mr. Shum Sai Chit and Ms. Chi Sile*

Independent Non-executive Directors: : *Mr. Kwong Ping Man, Mr. Cheung Sound Poon and Mr. Kwan Ngai Kit*