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CHINA RARE EARTH HOLDINGS LIMITED

中國稀土控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 769)

DISCLOSEABLE TRANSACTION: ACQUISITION OF A PRC DOMESTIC COMPANY

The Directors wish to announce that Leeshing Refractory and High Temperature Ceramics, both of which are wholly owned subsidiaries of the Company, entered into the Equity Transfer Agreement dated 23 December 2005 with Ms Jin and Mr Liu, pursuant to which Leeshing Refractory and High Temperature Ceramics have agreed to acquire, and Ms Jin and Mr Liu have agreed to sell, the entire equity interest in Suhai Magnesium at a total consideration of RMB120 million (approximately HK\$115.4 million). The major terms of the Equity Transfer Agreement are given in the section headed "Equity Transfer Agreement" below.

The Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. A circular containing details of the Acquisition and other information as prescribed under Rules 14.63 and 14.64 of the Listing Rules will be despatched to the Shareholders as soon as practicable.

INTRODUCTION

The directors (each, a "Director") of China Rare Earth Holdings Limited (中國稀土控股有限公司) ("Company"), together with its subsidiaries, the "Group" wish to announce that Yixing Xinwei Leeshing Refractory Materials Co., Ltd. (宜興新威利成耐火材料有限公司) ("Leeshing Refractory") and Wuxi Xinwei High Temperature Ceramics Co., Ltd. (無錫新威高溫陶瓷有限公司) ("High Temperature Ceramics") entered into the equity transfer agreement ("Equity Transfer Agreement") dated 23 December 2005 with Ms Jin Yefang ("Ms Jin") and Mr Liu Yonggang ("Mr Liu"). Pursuant to the Equity Transfer Agreement, Leeshing Refractory and High Temperature Ceramics have agreed to acquire, and Ms Jin and Mr Liu have agreed to sell, the entire equity interest in Haicheng City Suhai Magnesium Ore Co., Ltd. (海城市蘇海鎂礦有限公司) ("Suhai Magnesium") at a total consideration of RMB120 million (approximately HK\$115.4 million) ("Acquisition").

Both Leeshing Refractory and High Temperature Ceramics are wholly foreign-owned enterprises established in The People's Republic of China ("PRC") and wholly owned subsidiaries of the Company. Suhai Magnesium is a domestic limited liability enterprise established in the PRC.

EQUITY TRANSFER AGREEMENT

Date

23 December 2005

Structure of the Acquisition and consideration payable

Vendor	Purchaser	Percentage equity interest in Suhai Magnesium acquired	Consideration payable by the purchaser to the vendor
Ms Jin	Leeshing Refractory	70%	RMB84,000,000 (approximately HK\$80,769,000)
Mr Liu	High Temperature Ceramics	30%	RMB36,000,000 (approximately HK\$34,616,000)
Total:		100%	RMB120,000,000 (approximately HK\$115,385,000)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, none of Ms Jin and Mr Liu is a connected person (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")) of the Company and is dependent of or connected with the Company or any of the directors, chief executive and substantial shareholders (as defined in the Listing Rules) of the Company or of any of its subsidiaries, or any of their respective associates (as defined in the Listing Rules).

Purchase Price

The total price payable of RMB120,000,000 (approximately HK\$115,385,000) by Leeshing Refractory and High Temperature Ceramics to Ms Jin and Mr Liu ("Purchase Price") was determined after arm's length negotiations between the parties and agreed with reference to the net profit for the year ended 31 December 2004 of Suhai Magnesium times a multiple.

The Purchase Price is to be paid in cash by Leeshing Refractory and High Temperature Ceramics to Ms Jin and Mr Liu in the manner set out in the table above within three months after the completion of the Equity Transfer Agreement. The Purchase Price will be funded by internal resources of the Group.

Condition

The completion of the Equity Transfer Agreement is not subject to any condition.

Completion

In accordance with the Equity Transfer Agreement, completion of the Acquisition took place on 23 December 2005, being the date of signing of the Equity Transfer Agreement.

INFORMATION OF THE GROUP AND OTHERS

The Company is an investment holding company. The activities of its principal operating subsidiaries include the manufacture and sale of rare earth products and refractory products.

Suhai Magnesium is a domestic limited liability enterprise established in Haicheng, Liaoning Province, the PRC. It is principally engaged in the manufacture and sale of magnesium grains and related materials.

Immediately before the Acquisition, Suhai Magnesium was owned as to 70% by Ms Jin and 30% by Mr Liu. Immediately upon completion of the Acquisition Suhai Magnesium became a wholly owned subsidiary of the Company, and is now held as to 70% by Leeshing Refractory and 30% by High Temperature Ceramics.

As at 31 December 2004, the values of the total assets and the net assets of Suhai Magnesium (computed under the PRC GAAP) amounted to approximately RMB73.6 million (approximately HK\$70.8 million) and approximately RMB29.9 million (approximately HK\$28.8 million) respectively. For the two years ended 31 December 2004, the net profit (before taxation and extraordinary items) of Suhai Magnesium (computed under the PRC GAAP) amounted to approximately RMB13.2 million (approximately HK\$12.7 million) and approximately RMB31 million (approximately HK\$29.8 million) respectively; whereas for the same periods, the net profit (after taxation and extraordinary items) of Suhai Magnesium (computed under the PRC GAAP) amounted to approximately RMB8.8 million (approximately HK\$8.5 million) and approximately RMB20.8 million (approximately HK\$20 million) respectively.

REASONS FOR THE ACQUISITION

Suhai Magnesium is a supplier of the Group, supplying fused magnesium grains which is a major raw material for the production of refractory products of the Group. The market supply of fused magnesium grains has always been falling short of its demand, affecting the availability of such major raw material to the Group. The Directors believe that, through the Acquisition, the Group will be able to secure the supply of fused magnesium grains by Suhai Magnesium to the Group and to reduce the cost of sales of its refractory products by the consolidation of the production of the downstream and upstream products in the Group.

The Directors, including the independent non-executive Directors, consider that terms of the Acquisition (including the Purchase Price) are fair and reasonable and the Acquisition is on normal commercial terms and in the interest of the Group and the shareholders of the Company ("Shareholders") as a whole.

GENERAL

The Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. A circular containing details of the Acquisition and other information as prescribed under Rules 14.63 and 14.64 of the Listing Rules will be despatched to the Shareholders as soon as practicable.

As at the date of this announcement, the board of Directors comprises Mr Jiang Quanlong, Ms Qian Yuanying, Ms Xu Panfeng and Mr Jiang Cainan as executive Directors, and Mr Liu Yujiu, Mr Huang Chunhua and Mr Jin Zhong as independent non-executive Directors.

For the purpose of this announcement, translations of RMB into HK\$ or vice versa have been calculated by using an exchange rate of HK\$1.00 = RMB1.04.

By order of the board of Directors of
China Rare Earth Holdings Limited
Jiang Quanlong
Chairman

Hong Kong, 28 December 2005