

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement appears for information only and does not constitute an invitation, offer to acquire, purchase or subscribe for securities of the Company.



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)

PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES AND RESUMPTION OF TRADING

Placing Agent

KIM ENG

SECURITIES

Kim Eng Securities (Hong Kong) Limited

On 28 March 2006, the Placing and Subscription Agreement was entered into between the Vendor, the Company and the Placing Agent, pursuant to which the Placing Agent has agreed to place, on a best effort basis, up to 197,390,000 Placing Shares held by the Vendor to independent third parties who are not connected persons of the Company and are independent of and not connected with the Company, the directors, chief executive or substantial shareholders of the Company or its subsidiaries, or any of their respective associates at HK\$1.38 per Placing Share.

Pursuant to the Placing and Subscription Agreement, the Company has conditionally agreed to allot and issue the Subscription Shares (the number of which is equivalent to the Placing Shares actually sold by the Vendor under the Placing) at HK\$1.38 per Subscription Share. The Subscription is subject to various conditions set out below under the section headed "Conditions of the Subscription".

The price per Placing Share represents (i) a discount of approximately 8.61% to the closing price of HK\$1.51 per Share as quoted on the Stock Exchange at 4:00 p.m. on 27 March 2006, being the last trading day immediately prior to the date of this announcement, and (ii) a discount of approximately 5.87% to the average closing price of approximately HK\$1.466 per Share as quoted on the Stock Exchange for the last five trading days up to and including 27 March 2006, being the last trading day prior to the date of this announcement.

The Placing Shares represent approximately 20.00% of the existing issued share capital of the Company and approximately 16.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. Assuming that the Placing Shares are fully placed under the Placing, the Placing will reduce the shareholding of the Vendor from about 60.12% to approximately 40.12% of the existing issued share capital of the Company.

Assuming that the Placing Shares are fully placed under the Placing, the Subscription will then increase the shareholding of the Vendor to approximately 50.10% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

The Subscription Shares will be allotted and issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 16 June 2005.

Assuming that the Placing Shares are fully placed under the Placing, the net proceeds from the Subscription will amount to approximately HK\$264.39 million and the net price per Subscription Shares will be approximately HK\$1.34. The Company intends to use the net proceeds as general working capital of the Group.

Further announcement on the number of the Placing Shares actually placed will be made by the Company after completion of the Placing and the Subscription.

Trading in Shares on the Stock Exchange was suspended from 9:30 a.m. on 28 March 2006 at the request of the Company pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in Shares with effect from 9:30 a.m. on 29 March 2006.

PLACING AND SUBSCRIPTION AGREEMENT

1. The Placing

Vendor:

The Vendor, a company incorporated in the British Virgin Islands which is held by YYT Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms Qian Yuanying, the spouse of Mr Jiang Quanlong, and her children. Both Ms Qian Yuanying and Mr Jiang Quanlong are executive Directors.

The Vendor is a substantial shareholder of the Company, holding 593,400,000 Shares, representing approximately 60.12% of the existing issued share capital of the Company as at the date of this announcement.

Number of Placing Shares:

The Placing Agent has agreed to procure, on a best effort basis, places for the purchase of up to 197,390,000 Shares owned by the Vendor, representing approximately 20.00% of the issued share capital of the Company as at the date of this announcement or approximately 16.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares pursuant to the Subscription, assuming the Placing Shares are fully placed under the Placing.

Further announcement on the number of the Placing Shares actually placed will be made by the Company after completion of the Placing and the Subscription.

Placees:

It is expected that the Placing Shares will be placed to not less than six independent private individual and institutional investors who are not connected persons of the Company and are independent of and not connected with the Company, the directors, chief executive or substantial shareholders of the Company or its subsidiaries, or any of their respective associates.

Placing price:

HK\$1.38 per Placing Share.

This price was agreed after arm's length negotiations between the Vendor, the Company and the Placing Agent with reference to recent market prices of the Shares. This price represents (i) a discount of approximately 8.61% to the closing price of HK\$1.51 per Share at 4:00 p.m. on 27 March 2006, being the last trading day immediately prior to this announcement; and (ii) a discount of approximately 5.87% to the average closing price of approximately HK\$1.466 per Share as quoted on the Stock Exchange from 21 March 2006 to 27 March 2006, both dates inclusive, being the last five trading days immediately prior to the date of this announcement.

Placing Agent:

Kim Eng Securities (Hong Kong) Limited

Independence of placees and placing agent:

The placees and (where applicable) their ultimate beneficial owners will be, and the Placing Agent and its beneficial owners are, independent of and not connected with the Vendor. The placees and (where applicable) their ultimate beneficial owners and the Placing Agent and its beneficial owners are not connected persons of the Company and are also independent of and not connected with the Company, any of the directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or any of their associates.

To the best knowledge of the Directors, none of the placees will become substantial shareholders (within the meaning ascribed to it in the Listing Rules) of the Company immediately following the Placing.

Completion of the Placing:

Under the Placing and Subscription Agreement, the Placing is agreed to be completed on 29 March 2006 or such other time as the Vendor and the Placing Agent shall agree.

Rights of the Placing Shares:

The Placing Shares will be sold by the Vendor free of liens, charges, encumbrances and any third party rights and together with all rights attaching to the Placing Shares as at the date of completion of the Placing, including the right to receive all dividends and other distributions which may be declared, made or paid in respect of the Placing Shares if the record date shall fall on or after the date of completion of the Placing.

2. The Subscription

Subscriber:

The Vendor

Number of Subscription Shares:

The Company will allot and issue and the Vendor will subscribe for up to 197,390,000 new Shares which is equivalent to the number of the Placing Shares actually placed under the Placing, which represents approximately 20.00% of the issued share capital of the Company as at the date of this announcement or approximately 16.67% of the issued share capital as enlarged by the allotment and issue of the Subscription Shares assuming the Placing Shares are fully placed under the Placing.

Subscription price:

HK\$1.38 per Subscription Share, which is the equivalent of the price per Placing Share.

Mandate to allot and issue new Shares:

The Subscription Shares will be allotted and issued pursuant to the general mandate granted to the Directors by a resolution of the Shareholders passed at the annual general meeting of the Company held on 16 June 2005. The Company is authorised to issue 197,390,611 Shares under such mandate and the Company has not exercised the power to allot and issue any new Shares pursuant to such mandate prior to the Placing and the Subscription.

Ranking:

The Subscription Shares will rank equally in all respects among themselves and with all other Shares in issue as at the date of allotment and issue of the Subscription Shares.

Conditions of the Subscription:

The Subscription is conditional upon:

- (i) the Listing Committee of the Stock Exchange having granted or agreeing to grant the listing of, and permission to deal in, the Subscription Shares; and
- (ii) completion of the Placing pursuant to the Placing and Subscription Agreement.

None of the above conditions can be waived by the parties to the Placing and Subscription Agreement.

Assuming the Placing Shares are fully placed under the Placing, the shareholding of the Vendor will decrease from approximately 60.12% to approximately 40.12% immediately after completion of the Placing and will increase back to approximately 50.10% immediately after completion of the Subscription.

Completion of the Subscription:

Completion of the Subscription will take place on the next business day following the day on which the conditions referred to above are fulfilled.

If the conditions to the Subscription are not fulfilled on or before the date which is 14 days after the date of the Placing and Subscription Agreement (or such later date, subject to the approval of the Stock Exchange, as may be agreed by the parties), the Subscription will lapse. If the date of completion of the Subscription is to be extended beyond 11 April 2006, the Subscription will constitute a connected transaction under the Listing Rules which will require the approval of the independent Shareholders and the Company will take steps to ensure compliance with the Listing Rules. Further announcement will be made as and when appropriate.

3. Termination

Pursuant to the Placing and Subscription Agreement, the Placing Agent shall be entitled to terminate the Placing and Subscription Agreement at any time before completion of the Placing upon the occurrence of any of the following:

- (a) there shall have come to the notice of the Placing Agent any material breach of, or any event rendering untrue or incorrect in any material respect, any of the representations and warranties of the Vendor or of the Company contained in the Placing and Subscription Agreement or any failure to perform any of the Vendor's or the Company's undertakings in the Placing and Subscription Agreement;
- (b) in the sole judgment of the Placing Agent, there shall have been such a change in the national or international financial, political or economic conditions or currency exchange rates or exchange controls as would in its judgment be likely to prejudice the success of the Placing or trading in the Shares in the secondary market;
- (c) any new law, rule or regulation or any change in existing laws (including common law), rules or regulations (or the juridical interpretation thereof) or other occurrence of any nature whatsoever which, in the reasonable opinion of the Placing Agent, are or may be materially adverse to the business or financial position or prospects of the Company or any other member of the Group taken as a whole or otherwise makes it inexpedient or inadvisable to proceed with the Placing; or

(d) any event or circumstance (whether or not forming part of a series of events or circumstances occurring or continuing before, on and/or after the date of the Placing and Subscription Agreement) or material change or deterioration in local, national, international, political, military, financial, economic, market or trading conditions or any other conditions (whether or not ejusdem generis with any of the foregoing) in any part of the world in which the Company or any other member of the Group carries on business which, in the reasonable opinion of the Placing Agent, is or may be materially adverse to the business or financial position or prospects of the Company or any other member of the Group taken as a whole or otherwise makes it inexpedient or inadvisable to proceed with the Placing.

Upon termination of the Placing and Subscription Agreement by the Placing Agent as mentioned above, all rights and obligations of the parties shall cease (other than certain provisions of the Placing and Subscription Agreement including those relating to indemnity, fees and commissions, and treatment of the proceeds from the Placing) and the Placing and the Subscription will lapse.

CHANGES TO THE SHAREHOLDING AS A RESULT OF THE PLACING AND THE SUBSCRIPTION

Assuming the Placing Shares are fully placed under the Placing, the shareholding of the Vendor in the Company immediately before the Placing, immediately after the Placing but before the Subscription, and immediately after the Placing and the Subscription are as follows:

	Existing Shareholding		After the Placing but before the Subscription		After the Placing and the Subscription	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
The Vendor	593,400,000	60.12	396,010,000	40.12	593,400,000	50.10
Huang Chunhua (Note 1)	2,868,000	0.29	2,868,000	0.29	2,868,000	0.24
Places	-	-	197,390,000	20.00	197,390,000	16.67
Public	390,685,059	39.59	390,685,059	39.59	390,685,059	32.99
Total	986,953,059	100	986,953,059	100	1,184,343,059	100

Notes:

- Huang Chunhua is an independent non-executive Director.
- The number of existing Shares held by the Shareholders is based on the register of members of the Company as at 27 March 2006.

REASONS FOR THE PLACING AND SUBSCRIPTION AND USE OF PROCEEDS

The Directors consider that it is in the interests of the Company to raise capital from the equity market in order to enhance the capital base of the Company. The Directors (including the independent non-executive Directors) consider the terms of the Placing and Subscription Agreement to be fair and reasonable and are in the best interests of the Company, as far as the Company and the Shareholders as a whole are concerned.

Assuming that the Placing Shares are fully placed under the Placing, the net proceeds, after deducting related placing commission, professional fees and all related expenses which will be borne by the Company, under the Subscription are estimated to be approximately HK\$264.39 million and the net price per Subscription Share is approximately HK\$1.34. The Company intends to use the net proceeds as general working capital of the Group.

GENERAL INFORMATION

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. The Group has not conducted any equity fund raising activities in the past 12 months from the date of this announcement.

APPLICATION FOR LISTING

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

RESUMPTION OF TRADING IN SHARES

Trading in Shares on the Stock Exchange was suspended from 9:30 a.m. on 28 March 2006 at the request of the Company pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in Shares with effect from 9:30 a.m. on 29 March 2006.

DEFINITIONS

The following defined terms are used in this announcement:

“associates”	having the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	China Rare Earth Holdings Limited, the Shares of which are listed on the Main Board of the Stock Exchange
“connected persons”	having the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	collectively, the Company and its subsidiaries for the time being
“HK\$”	Hong Kong Dollars, the lawful currency of the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Placing”	the placing of the Placing Shares pursuant to the terms of the Placing and Subscription Agreement
“Placing Agent”	Kim Eng Securities (Hong Kong) Limited, a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) for regulated activities of type 1 (dealing in securities) and type 4 (advising on securities)
“Placing Shares”	up to a total of 197,390,000 Shares beneficially owned by the Vendor to be placed pursuant to the Placing and Subscription Agreement
“Placing and Subscription Agreement”	the placing and subscription agreement dated 28 March 2006 between the Vendor, the Company and the Placing Agent
“Share(s)”	ordinary share(s) of HK\$0.10 in the capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares to be subscribed for by the Vendor pursuant to the Placing and Subscription Agreement
“Subscription Shares”	up to a total of 197,390,000 new Shares, being the number of Shares actually placed out under the Placing
“Vendor”	YY Holdings Limited, a company incorporated in the British Virgin Islands which is held by YYT Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms Qian Yuanying, the spouse of Mr Jiang Quanlong, and her children. Both Ms Qian Yuanying and Mr Jiang Quanlong are executive Directors
%	per cent.

By Order of the Board of
China Rare Earth Holdings Limited
Jiang Quanlong
Chairman

Hong Kong, 28 March 2006

As at the date of this announcement, the Board 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.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, their opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any of their statements in this announcement misleading.