

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.



中國稀土控股有限公司
China Rare Earth Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 769)

DISCLOSEABLE TRANSACTION

The Directors wish to announce that on 16 October 2008, Yixing Xinwei, a 95% owned subsidiary of the Company, Yan Yinhua and Lan Jingxian entered into the Acquisition Agreement, pursuant to which Yixing Xinwei has conditionally agreed to acquire the Sale Interest from Yan Yinhua and Lan Jingxian at the Basic Consideration of RMB100,000,000 (equivalent to approximately HK\$114,160,000), with an earn-out, details of which are set out below. The Consideration will be settled in cash by cheque or telegraphic transfer.

The Acquisition constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules. A circular containing, among other things, further information on the Acquisition will be despatched to the Shareholders as soon as possible in accordance with the requirements of the Listing Rules.

In view of the relationship between Lan Jingxian and Shao Jufang and Xie Fadi, the Stock Exchange is still considering whether the Acquisition should be aggregated with the Prior Transaction, and if so, the Company is required to comply with the major transaction requirement for the Acquisition.

THE ACQUISITION AGREEMENT

Date

16 October 2008

Parties

Vendors: (i) Yan Yinhua, holding 51% of the beneficial interest in the Sale Interest; and
(ii) Lan Jingxian, holding 49% of the beneficial interest in the Sale Interest

Purchaser: Yixing Xinwei

Save as the relationship between Lan Jingxian and the vendors of the Prior Transaction (as defined below) as described in the paragraph headed “Information of the Target” below, to the best of the Director’s knowledge, information and belief having made all reasonable enquiry, the Vendors and the Target are third parties independent of the Company and connected persons of the Company. The Company does not have any transactions with the Vendors completed within 12 months prior to the Acquisition.

Interest to be acquired

Subject to the terms and conditions of the Acquisition Agreement, the Purchaser has conditionally agreed to acquire from the Vendors, and the Vendors has conditionally agreed to sell to the Purchaser, the Sale Interest, representing the entire registered capital of the Target.

Consideration

The Consideration shall be the aggregate sum of the Basic Consideration (as defined below) and the Earn-out (as defined below) and shall be determined in the following manner:

1. Basic Consideration

The Basic Consideration shall be RMB100,000,000 (equivalent to approximately HK\$114,160,000), of which RMB51,000,000 (equivalent to approximately HK\$58,220,000) shall be paid to Yan Yinhua and RMB49,000,000 (equivalent to approximately HK\$55,940,000) shall be paid to Lan Jingxian. The Basic Consideration shall be settled in cash by cheque or telegraphic transfer upon Completion.

2. Earn-out

If the 2008 Audited Net Profit shall be greater than RMB20,000,000 (equivalent to approximately HK\$22,830,000), the Purchaser shall pay the Vendors (in accordance with each of the Vendors’ percentage interest in the registered capital of the Target as at the date of the Acquisition Agreement) an earn-out as calculated by the following formula:

$$\textit{Earn-out} = (2008 \textit{ Audited Net Profit} \times 5) - \textit{Basic Consideration}$$

The Earn-out calculated in accordance with the formula above, if any, shall be paid by the Purchaser to the Vendors in cash by cheque or by telegraphic transfer within 15 days after the date of issue of the 2008 Audited Report.

If the 2008 Audited Net Profit shall be lower than RMB20,000,000 (equivalent to approximately HK\$22,830,000), no Earn-out shall be paid. If the 2008 Audited Net Profit shall be greater than RMB28,000,000 (equivalent to approximately HK\$31,960,000), the maximum Earn-out shall be RMB40,000,000 (equivalent to approximately HK\$45,660,000). The Company will make further announcement if the Earn-out has to be paid in accordance with the terms of the Acquisition Agreement.

The Consideration was negotiated between the parties on an arm's length basis and was determined by reference to the unaudited net profit after tax of the Target of approximately RMB20,700,000 (equivalent to approximately HK\$23,630,000) for the eight months ended 31 August 2008. The Directors consider that the Consideration is fair and reasonable and is in the interest of the Shareholders as a whole.

Completion

Completion shall take place on the third business day after the registration of the relevant changes of the Target at the relevant authorities in the PRC being duly completed (or such other date as the parties may agree in writing).

INFORMATION OF THE TARGET

The Target is a company established in the PRC in 2005 and is principally engaged in the manufacture and sale of rare earth products. The Target was held by Shao Jufang and Xie Fadi (the vendors of the acquisition of 興華稀土新材料有限公司 (Xinghua Rare Earth Company Limited) as set out in the announcement of the Company dated 6 October 2008 (“**Prior Transaction**”). In August 2008, each of Shao Jufang and Xie Fadi entered into an equity transfer agreement with Lan Jingxian in relation to the transfer of the then 100% equity interest in the Target. Subsequent to such transfer, the registered capital of the Target has been increased from RMB5,000,000 (equivalent to approximately HK\$5,710,000) to RMB20,000,000 (equivalent to approximately HK\$22,830,000) and held by each of Lan Jingxian and Yan Yinhua as to 49% and 51% respectively. As at the date of this announcement, the registered capital of the Target was RMB20,000,000 (equivalent to approximately HK\$22,830,000).

The audited net profit before and after taxation of the Target were both RMB0 (equivalent to HK\$0) for the year ended 31 December 2006 and the audited net profit before and after taxation of the Target were approximately RMB11,200,000 (equivalent to approximately HK\$12,790,000) and approximately RMB7,470,000 (equivalent to approximately HK\$8,530,000) for the year ended 31 December 2007 respectively in accordance with China's Auditing Standards for the Certified Public Accountants. Based on the management accounts of the Target for the eight months ended 31 August 2008, the unaudited net profit of the Target before and after taxation amounted to approximately RMB24,000,000 (equivalent to approximately HK\$27,400,000) and approximately RMB20,700,000 (equivalent to approximately HK\$23,630,000) respectively and the unaudited net asset value of the Target as at 31 August 2008 amounted to approximately RMB48,200,000 (equivalent to approximately HK\$55,020,000).

In view of the relationship between Lan Jingxian and Shao Jufang and Xie Fadi, the Stock Exchange is still considering whether the Acquisition should be aggregated with the Prior Transaction, and if so, the Company is required to comply with the major transaction requirement for the Acquisition.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the manufacture and sale of rare earth products and refractory products in the PRC. Since the principal business activities of the Target are in line with those of the Group, it is expected that the Acquisition will enhance the Group's profitability and operation size. The Directors believe that the Acquisition will contribute positively to the future development and growth of the Group through the broadening of the income base and asset base of the Group.

Having regard to the above factors, the Directors consider that the terms and conditions of the Acquisition Agreement are fair and reasonable and that the Acquisition is on normal commercial terms and is in the interest of the Shareholders as a whole. A circular containing, among other things, further information on the Acquisition will be despatched to the Shareholders as soon as possible in accordance with the requirements of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

“2008 Audited Net Profit”	the net profit after tax and before extraordinary items of the Target for the year ending 31 December 2008 as shown in the 2008 Audited Report
“2008 Audited Report”	the audited financial statements of the Target for the year ending 31 December 2008 prepared in accordance with the PRC generally accepted accounting principles by a firm of auditors appointed by the Purchaser
“Acquisition”	the acquisition by the Purchaser of the Sale Interest from the Vendors pursuant to the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 16 October 2008 entered into between Yan Yinhua and Lan Jingxian as vendors and the Yixing Xinwei as purchaser in relation to the Acquisition
“Company”	中國稀土控股有限公司(China Rare Earth Holdings Limited), a company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange

“Completion”	completion of the Acquisition Agreement in accordance with its terms
“Consideration”	the aggregate sum of the Basic Consideration and the Earn-out (if any)
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Purchaser” or “Yixing Xinwei”	宜興新威利成稀土有限公司(Yixing Xinwei Leeshing Rare Earth Company Limited), a 95% owned subsidiary of the Company
“Sale Interest”	the beneficial interest representing the entire registered capital of the Target, to be acquired by the Purchaser from the Vendors pursuant to the Acquisition Agreement
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	和平縣東冶稀土新材料有限公司(Heping County Dongye Rare Earth Company Limited), a company established in the PRC, the target company of the Acquisition Agreement
“Vendors”	Yan Yinhua and Lan Jingxian, holders of the beneficial interest in the Sale Interest
“RMB”	Renminbi, the lawful currency of the PRC

“%”

per cent.

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

Hong Kong, 20 October 2008

As at the date of this announcement, the board of Directors consists of 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 = RMB0.876.

The English translation of the Chinese name of the relevant parties is for information purposes only, and should not be regarded as the official English translation of such name.