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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)

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

Placing Agent



KIM ENG SECURITIES (HONG KONG) LIMITED

PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

On 14 October 2010, 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 100,000,000 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\$3.95 per Placing Share. Pursuant to the Placing and Subscription Agreement, the Vendor has also granted the Option to the Placing Agent exercisable by the Placing Agent, to require the Vendor to sell in aggregate up to 20,000,000 Option Shares at HK\$3.95 each.

Pursuant to the Placing and Subscription Agreement, the Company has conditionally agreed to allot and issue the Subscription Shares (the number of which shall be equivalent to the Placing Shares, together with the Option Shares, actually sold by the Vendor under the Placing) at HK\$3.95 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 10.02% to the closing price of HK\$4.39 per Share as quoted on the Stock Exchange on 13 October 2010, being the last trading day immediately prior to the date of this announcement, (ii) a discount of approximately 7.71% to the average closing price of HK\$4.28 per Share as quoted on the Stock Exchange for the last five trading days up to and including 13 October 2010, being the last trading day prior to the date of this announcement; and (iii) a premium of approximately 3.05% over the average closing price of HK\$3.833 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 13 October 2010, being the last trading day prior to the date of this announcement.

Assuming the Option is exercised, the Placing Shares, together with the Option Shares, represent approximately 7.73% of the existing issued share capital of the Company and approximately 7.18% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. Assuming the Option is not exercised, the Placing Shares represent approximately 6.44% of the existing issued share capital of the Company and approximately 6.05% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Assuming the Option is exercised and the Placing Shares, together with the Option Shares, are fully placed under the Placing, the Placing will reduce the shareholding of the Vendor and any party acting in concert with it from approximately 38.35% to approximately 30.62% of the existing issued share capital of the Company. The then Subscription will increase the shareholding of the Vendor and any party acting in concert with it to approximately 35.60% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares thereby triggering a general offer obligation under the Takeovers Code.

Assuming the Option is not exercised and the Placing Shares are fully placed under the Placing, the Placing will reduce the shareholding of the Vendor and any party acting in concert with it from approximately 38.35% to approximately 31.91% of the existing issued share capital of the Company. The then Subscription will increase the shareholding of the Vendor and any party acting in concert with it to approximately 36.03% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares thereby triggering a general offer obligation under the Takeovers Code.

An application will be made by the Vendor to the Executive for the granting of a waiver from general offer obligation that might otherwise arise under the Takeovers Code as a result of the Subscription. An application will be made by the Company to the Listing Committee 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 3 June 2010.

Assuming that the Placing Shares, together with the Option Shares, are fully placed under the Placing, the net proceeds from the Subscription will amount to approximately HK\$455 million. The Company intends to retain the net proceeds as general working capital of the Group.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 14 October 2010 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 the Shares with effect from 9:30 a.m. on 15 October 2010.

PLACING AND SUBSCRIPTION AGREEMENT

1. The Placing

Vendor:

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

As at the date of this announcement, the Vendor and parties acting in concert (as defined in the Takeovers Code) with it is a substantial shareholder of the Company, holding 595,200,000 Shares which represent approximately 38.35% of the existing issued share capital of the Company.

Number of Placing Shares:

The Placing Agent has agreed to procure, on a best effort basis, places for the purchase of up to 100,000,000 Shares owned by the Vendor. The Vendor has also granted the Option to the Placing Agent exercisable by the Placing Agent, to require the Vendor to sell in aggregate up to 20,000,000 Option Shares.

Assuming the Option is exercised, the Placing Shares, together with the Option Shares, represent approximately 7.73% of the existing issued share capital of the Company and approximately 7.18% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. Assuming the Option is not exercised, the Placing Shares represent approximately 6.44% of the existing issued share capital of the Company and approximately 6.05% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Placees:

It is expected that the Placing Shares will be placed to not less than six independent private individual and institutional investors.

Placing price:

HK\$3.95 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 10.02% to the closing price of HK\$4.39 per Share as quoted on the Stock Exchange on 13 October 2010, being the last trading day immediately prior to the date of this announcement, (ii) a discount of approximately 7.71% to the average closing price of HK\$4.28 per Share as quoted on the Stock Exchange for the last five trading days up to and including 13 October 2010, being the last trading day prior to the date of this announcement; and (iii) a premium of approximately 3.05% over the average closing price of HK\$3.833 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 13 October 2010, being the last trading day prior to the date of this announcement.

Placing Agent:

Kim Eng Securities (Hong Kong) Limited

Independence of placees and placing agent:

To the best knowledge of the Directors:

- (a) the placees, (where applicable) their ultimate beneficial owners, the Placing Agent and its beneficial owners are independent of and not connected with and will not be acting in concert with the Vendor;
- (b) the placees, (where applicable) their ultimate beneficial owners, the Placing Agent and its beneficial owners 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; and
- (c) none of the placees will become substantial shareholders of the Company immediately following the Placing.

Completion of the Placing:

Under the Placing and Subscription Agreement, completion of the Placing will take place on 18 October 2010 or such other date as the Placing Agent may agree.

Rights of the Placing Shares:

The Placing Shares will be sold by the Vendor free of liens, charges, encumbrances, claims, options and any third party rights and 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 has agreed to allot and issue and the Vendor has agreed to subscribe for up to 120,000,000 new Shares (the exact number of which will be equivalent to the number of the Placing Shares, together with the Option Shares, actually placed under the Placing), which, having an aggregate nominal value of HK\$12,000,000, represents approximately 7.73% of the issued share capital of the Company as at the date of this announcement and, assuming the Placing Shares, together with the Option Shares, are fully placed under the Placing, represents approximately 7.18% of the issued share capital as enlarged by the allotment and issue of the Subscription Shares.

Subscription price:

HK\$3.95 per Subscription Share, which is equivalent to 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 3 June 2010. The Company is authorised to issue 310,228,611 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. Accordingly, the issue of the Subscription Shares is not subject to Shareholders' approval.

Ranking:

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

Conditions of the Subscription:

The Subscription is conditional upon:

- (a) the Listing Committee of the Stock Exchange agreeing to grant a listing of, and permission to deal in, the Subscription Shares (either unconditionally or subject to conditions which are acceptable to the Company);
- (b) if required, the Executive granting a waiver to the Vendor to the effect that neither the Vendor nor any party acting in concert with it will be obliged to make a general offer for the Shares under the Takeovers Code as a result of the Subscription; and
- (c) 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 Option is exercised and the Placing Shares, together with the Option Shares, are fully placed under the Placing, the Placing will reduce the shareholding of the Vendor and any party acting in concert with it from approximately 38.35% to approximately 30.62% of the existing issued share capital of the Company. The then Subscription will increase the shareholding of the Vendor and any party acting in concert with it to approximately 35.60% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares thereby triggering a general offer obligation under the Takeovers Code.

Assuming the Option is not exercised and the Placing Shares are fully placed under the Placing, the Placing will reduce the shareholding of the Vendor and any party acting in concert with it from approximately 38.35% to approximately 31.91% of the existing issued share capital of the Company. The then Subscription will increase the shareholding of the Vendor and any party acting in concert with it to approximately 36.03% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares thereby triggering a general offer obligation under the Takeovers Code.

Completion of the Subscription:

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

If the conditions to the Subscription are not fulfilled by 28 October 2010 (or such later date as may be agreed by the Vendor and the Company in writing), all rights, obligations and liabilities of the parties pursuant to the Placing and Subscription Agreement in relation to the Subscription shall cease and determine and none of the parties thereto shall have any claim against any other in respect of the Subscription.

3. Termination

Pursuant to the Placing and Subscription Agreement, the Placing Agent shall have the right to terminate the Placing and Subscription Agreement by notice in writing given to the Vendor and the Company at any time prior to completion of the Placing if any of the following occurs:

- (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 contained in the Placing and Subscription Agreement or any failure by the Vendor to perform its undertakings in the Placing and Subscription Agreement;
- (b) in the sole judgement 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 judgement 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 and fees and commissions from the Placing) and the Placing and the Subscription will lapse.

4. Non-disposal and issue of Shares

Under the Placing and Subscription Agreement:

- (a) the Vendor has undertaken to the Placing Agent that (except for the sale of the Placing Shares pursuant to the Placing and Subscription Agreement) for a period commencing from the date thereof and ending six months after the date of the Placing and Subscription Agreement that it will not and will procure that none of its nominees, companies controlled by it and/or trusts associated with it (whether individually or together and whether directly or indirectly) will, without the consent of the Placing Agent (i) offer, lend, pledge, issue, sell, grant any option, right or warrant or otherwise transfer or dispose of (either conditionally or unconditionally) any Shares or any interests therein or any securities convertible into or exercisable or exchangeable for any Shares or interests in Shares or enter into any agreement to do any of the foregoing; or (ii) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of such Shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Shares or other securities, in cash or otherwise. For the avoidance of doubt, the above undertaking does not restrict the Vendor or any of its nominees, companies controlled by it and/or trusts associated with it from purchasing any Shares; and

- (b) the Company has undertaken to the Placing Agent that (except for (i) the Subscription Shares to be allotted and issued to the Vendor; (ii) any new Shares and options to be issued or granted under the existing share option scheme adopted by the Company; and (iii) any Shares or other securities or rights issued or granted to the Shareholders by way of bonus or under any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the constitutional documents of the Company) for a period commencing from the date thereof and ending six months after the date of the Placing and Subscription Agreement that it will not (without the prior written consent of the Placing Agent) (i) allot or issue or offer to allot or issue or grant any option, right, warrant to subscribe (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or any interests in Shares or any securities convertible or exchangeable for Shares or interests in Shares; or (ii) agree (unconditionally or conditionally) to enter into or effect any transaction with the same or substantially similar economic effect as any of the transaction described in (i) above.

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

Assuming the Placing Shares, together with the Option Shares, are fully placed under the Placing, the shareholding of the Vendor and any party acting in concert with it in the Company (a) immediately before the Placing; (b) immediately after the Placing but before the Subscription; and (c) 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	%
<i>Connected persons</i>						
The Vendor and any party acting in concert with it	595,200,000	38.35	475,200,000	30.62	595,200,000	35.60
Sub-total:	595,200,000	38.35	475,200,000	30.62	595,200,000	35.60
<i>Public</i>						
Placees	–	–	120,000,000	7.73	120,000,000	7.18
Other public	956,743,059	61.65	956,743,059	61.65	956,743,059	57.22
Sub-total:	956,743,059	61.65	1,076,743,059	69.38	1,076,743,059	64.40
Total:	1,551,943,059	100.00	1,551,943,059	100.00	1,671,943,059	100.00

Note: The number of existing Shares held by the Shareholders mentioned in the above table is based on the register of members of the Company as at 14 October 2010.

As disclosed in the above shareholding table, immediately after completion of the Placing as well as immediately after completion of the Placing and the Subscription, a minimum of 25% of the then issued share capital of the Company will be in public hands.

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, together with the Option Shares, are fully placed under the Placing:

- (i) the gross proceeds from the Subscription are estimated to be approximately HK\$474 million; and
- (ii) the net proceeds, after deducting related placing commission, professional fees and all related expenses which will be borne by the Company, from the Subscription are estimated to be approximately HK\$455 million.

The Company intends to retain 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.

FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

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 Listing Committee for the listing of, and permission to deal in, the Subscription Shares.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 14 October 2010 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 the Shares with effect from 9:30 a.m. on 15 October 2010.

DEFINITIONS

The following defined terms are used in this announcement:

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| “associates” | having the meaning ascribed thereto in the Listing Rules |
| “Board” | the board of Directors |

“business day”	means a day (excluding Saturday and any day on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong of any time between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon) on which banks generally are open for business in Hong Kong
“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
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
“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
“Option”	the option granted by the Vendor to the Placing Agent pursuant to the Placing and Subscription Agreement to require the Vendor to sell the Option Shares at the Placing Price
“Option Shares”	up to a total of 20,000,000 additional Shares beneficially owned by the Vendor and to be placed by the Placing Agent upon its exercise of the Option
“Placing”	the placing of the Placing Shares and/or the Option 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) to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
“Placing Shares”	up to a total of 100,000,000 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 14 October 2010 entered into 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 by the Vendor pursuant to the Placing and Subscription Agreement
“Subscription Shares”	up to a total of 120,000,000 new Shares (assuming the Option is exercised), the exact number of which shall be equal to the number of Placing Shares, together with the Option Shares, actually placed out under the Placing
“substantial shareholders”	having the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Vendor”	YY Holdings Limited, a company incorporated in the British Virgin Islands which is held by YYT (PTC) Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, who is the wife 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, 14 October 2010

As at the date of this announcement, the Board consists of Mr. Jiang Quanlong, Ms. Qian Yuanying 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, 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 statement in this announcement misleading.