



中國稀土控股有限公司

CHINA RARE EARTH HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

PLACING OF EXISTING SHARES AND SUBSCRIPTION FOR NEW SHARES

YY Holdings Limited (the "Vendor") has appointed CLSA Limited ("CLSA" or the "Placing Agent") as the placing agent to unconditionally place 105,200,000 existing ordinary shares (the "Placing Shares") of HK\$0.10 each (each a "Share") in China Rare Earth Holdings Limited (the "Company"), representing approximately 14.83% of the existing issued share capital of the Company and approximately 12.92% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (as defined below) at a price of HK\$2.45 per Placing Share (the "Placing"), and will subscribe for 105,200,000 new Shares (the "Subscription Shares"), representing approximately 14.83% of the existing issued share capital of the Company and approximately 12.92% of the issued share capital as enlarged by the allotment and issue of the Subscription Shares, at a price of HK\$2.45 per Subscription Share (the "Subscription").

On 10 July 2001, the Vendor, the Company and the Placing Agent entered into a placing agreement (the "Placing Agreement") and on the same date, the Vendor and the Company entered into a subscription agreement (the "Subscription Agreement"), respectively.

The Placing Shares will be sold to more than six independent professional and institutional investors on a fully underwritten basis subject to termination in certain events, set out below under the heading "Completion of Placing".

The net proceeds to the Company from the Placing and the Subscription will amount to approximately HK\$254,500,000 and will be used to expand the Company's refractory material production capacity, to develop the Company's rare earth downstream business and to increase general working capital of the Company.

The Vendor is the controlling shareholder of the Company and currently holds approximately 58.51% of the Company's existing issued share capital. The Placing will reduce the aggregate shareholding of the Vendor to approximately 43.68% of the Company's existing issued share capital. The Subscription will then increase the aggregate shareholding of the Vendor to approximately 50.95% of the Company's enlarged issued share capital pursuant to the Subscription.

The Company requested suspension of trading in the Shares on the Stock Exchange from 10:00 a.m. on 10 July 2001 and will request for resumption of trading in the Shares on the Stock Exchange with effect from 10:00 a.m. on 11 July 2001.

Principal activities of the Company

Extraction, manufacture and sale of rare earth products and refractory materials.

The Placing Agreement dated 10 July 2001

Vendor:

The Vendor is the controlling shareholder of the Company.

It is a private limited company incorporated in the British Virgin Islands held by the trustee of the Jiang family trust, the discretionary object of which is a company wholly owned by Madam Qian Yuanying, the Deputy Chairman and an executive director of the Company (the "Director") and the wife of Mr Jiang Quanlong, the chairman of the Company and an executive Director of the Company, and her children.

Number of the Placing Shares:

105,200,000 Shares which represent approximately 14.83% of the Company's existing issued share capital of 709,253,059 Shares and approximately 12.92% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Placees:

More than six independent professional and institutional investors.

Placing price

HK\$2.45 per Placing Share. The placing price is determined after arm's length discussions between the Vendor and the Placing Agent, which represents a discount of approximately 6.7% to the closing price of HK\$2.625 per Share quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 July 2001 and a discount of approximately 11.6% to the average closing price of the shares for the last ten trading days of HK\$2.77 per Share from 21 June 2001 to 9 July 2001 (both dates inclusive) immediately prior to this announcement.

Rights:

The Placing Shares will be sold free of any third party rights.

Buyers will receive all dividends and distributions declared, made or paid after 10 July 2001.

Placing Agent:

CLSA Limited. CLSA has fully underwritten the Placing and will receive a placing commission equal to approximately HK\$2,577,400 (or 1% of the aggregate amount of the placing price).

Independence of Placees and Placing Agent:

The Placees (and their ultimate beneficial owners) and the Placing Agent are independent of and not connected with any of the directors, chief executive, substantial shareholders of the Company or any of its subsidiaries, or an associate of any of them (as such terms are defined in the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

Completion of Placing:

The Placing is unconditional and completion is expected to take place on or before 13 July 2001 subject to termination in the following events:

"Notwithstanding anything contained in the Placing Agreement, if at any time on or prior to the Closing Date (as defined in the Placing Agreement, being 13 July 2001 or such other date as may be agreed between the parties but in any event no later than 24 July 2001, being 14 days after the date of the Placing Agreement):-

(A) in the reasonable opinion of the Placing Agent there shall have been since the date of the Placing Agreement such a change in national or international financial, political or economic conditions or taxation or exchange controls as would be likely to prejudice materially the consummation of the placing; or

(B) any material breach of any of the representations and warranties by the Vendor as set out in the Placing Agreement comes to the knowledge of the Placing Agent or any event occurs or any matter arises on or after the date hereof and prior to the Closing Date which if it had occurred or arisen before the date hereof would have rendered any of such representations and warranties untrue or incorrect in any material respect or there has been a material breach by the Vendor of any other provision of the Placing Agreement.

then and in any such case, the Placing Agent may after consultation with the Vendor (to the extent that the same is reasonably practicable) terminate the Placing Agreement without liability to the Vendor by giving notice in writing to the Vendor, provided that such notice is received prior to the Closing Date."

The Subscription Agreement dated 10 July 2001

Subscriber:

YY Holdings Limited

Number of the Subscription Shares:

105,200,000 new Shares, which represent approximately 14.83% of the Company's existing issued share capital and approximately 12.92% of its issued share capital as enlarged by the Subscription.

Subscription price:

HK\$2.45 per Subscription Share (being the equivalent of the placing price). The Company will pay the costs and expenses of the Subscription.

Mandate to allot and issue new Shares:

The new Shares will be allotted and issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 18 May 2001, which is unused and is sufficient for the allotment and issue of the Subscription Shares pursuant to the Subscription.

Ranking:

The Subscription Shares will rank pari passu in all respects among themselves and with all other Shares in issue on the date of the Subscription Agreement.

Conditions of the Subscription:

The Subscription is conditional upon, among other matters:

1. the completion of the placing pursuant to the Placing Agreement; and
2. the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares;

The conditions must be satisfied within 14 days from the date of the Subscription Agreement (i.e., on or before 24 July 2001). If the conditions are not fulfilled within the time specified above, the Subscription will lapse and the Company will comply with the relevant requirements of the Listing Rules.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares. The Subscription is expected to be completed two business days after the date on which the conditions of the Subscription have been satisfied.

Shareholding of the Vendor

The Vendor currently holds approximately 58.51% of the Company's existing issued share capital. The Placing will reduce the aggregate shareholding of the Vendor to approximately 43.68% of the Company's existing issued share capital. The Subscription will then increase the aggregate shareholding of the Vendor to approximately 50.95% of the Company's enlarged issued share capital after the Subscription.

Reasons for the Placing and the Subscription and use of proceeds

The net proceeds to the Company from the Placing and the Subscription will amount to approximately HK\$254,500,000 and will be used as to approximately HK\$100,000,000 to expand the Company's refractory material production capacity, as to approximately HK\$80,000,000 to develop the Company's rare earth downstream business and the remaining balance of HK\$74,500,000 as general working capital of the Company. The Directors consider the terms of the Placing and the Subscription fair and reasonable and that taken as a whole the Placing and Subscription was an ideal opportunity for raising additional capital in that it would enhance the capital base of the Company and increase the shareholders' base and marketability of the Shares.

Suspension and resumption of trading

The Company requested suspension of trading in the Shares on the Stock Exchange from 10:00 a.m. on 10 July 2001 and will request for resumption of trading in the Shares on the Stock Exchange with effect from 10:00 a.m. on 11 July 2001.

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