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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)

DISCLOSEABLE AND CONNECTED TRANSACTION AND INCREASE IN AUTHORISED SHARE CAPITAL

The Directors wish to announce that on 19 December 2003, Lee Shing, a wholly owned subsidiary of the Company, and YY Holdings entered into the Acquisition Agreement, pursuant to which Lee Shing has conditionally agreed to acquire the Sale Shares from YY Holdings at a Consideration of HK\$207,000,000, subject to adjustment. The Consideration will be satisfied by the allotment and issue of 172,500,000 Consideration Shares at an issue price of HK\$1.20 per Share to YY Holdings.

The Acquisition constitutes a discloseable transaction under Rule 14.12 of the Listing Rules. Given that the Consideration will be satisfied by the allotment and issue of the Consideration Shares and YY Holdings is a controlling shareholder of the Company, the Acquisition also constitutes a share transaction and a connected transaction for the Company under the Listing Rules, and is subject to the approval of the Independent Shareholders at the EGM and the disclosure requirements under Rule 14.26 of the Listing Rules.

Resolutions will be proposed, and if thought fit, passed at the EGM to approve the increase in the authorised share capital of the Company from HK\$100,000,000 to HK\$200,000,000 by the creation of an addition of 1,000,000,000 Shares.

A circular containing, among others, details of the increase in the authorised share capital, the Acquisition Agreement, a letter from the Independent Board Committee and a letter from the independent financial adviser to the Independent Board Committee together with a notice to convene the EGM will be despatched to the Shareholders as soon as practicable.

THE ACQUISITION AGREEMENT

Date

19 December 2003

Parties

Vendor: YY Holdings, a controlling shareholder of the Company having approximately 51.57% interest in the existing issued share capital of the Company.

Purchaser: Lee Shing, a wholly owned subsidiary of the Company.

Interest to be acquired

Subject to the terms and conditions of the Acquisition Agreement, Lee Shing has conditionally agreed to acquire from YY Holdings, and YY Holdings has conditionally agreed to sell to Lee Shing, the Sale Shares, representing the entire issue share capital of Dynamic Goal. Dynamic Goal in turn owns the entire equity interest in High Temperature Ceramics.

Conditions

Completion of the Acquisition Agreement is subject to the fulfillment or waiver of, among others, the following conditions:

- the passing of the necessary resolutions by the Independent Shareholders at the EGM approving the Acquisition Agreement and the transactions contemplated thereby (including but not limited to the allotment and issue of the Consideration Shares);
- the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares;
- Lee Shing having obtained a legal opinion (in such form and substance satisfactory to Lee Shing) from its appointed PRC legal advisers covering the following matters:
 - the due establishment and existence of High Temperature Ceramics;
 - the legality of the business carried on by High Temperature Ceramics;
 - the legal ownership of the land and properties held by High Temperature Ceramics;
 - the legality of the terms of the Acquisition Agreement and the transfer of the Sale Shares; and
 - such other matters as Lee Shing may reasonably require;
- Lee Shing having completed, and being satisfied with, its due diligence review on the Dynamic Group (including but not limited to legal, financial and business aspects); and
- YY Holdings not having committed any material breach of the representations, warranties and undertakings given under the Acquisition Agreement on or before the date of Completion.

If any of the conditions above is not fulfilled or waived by Lee Shing (except for conditions (a) and (b)) by the Longstop Date, the Acquisition Agreement will lapse, and no party shall have any liability to the other arising out of the Acquisition Agreement, save for any antecedent breach thereof.

Consideration

The Consideration payable by Lee Shing to YY Holdings shall be HK\$207,000,000, subject to adjustment, which will be satisfied by the allotment and issue of 172,500,000 Consideration Shares at an issue price of HK\$1.20 per Share to YY Holdings.

The Consideration was negotiated between the parties on an arm's length basis and was determined by reference to the Guaranteed Net Profit at a price earnings multiple of nine times. If the Audited Net Profit shall be less than the Guaranteed Net Profit by more than HK\$500,000, the

Consideration shall be adjusted in accordance with the following formula:

$$\text{Adjusted Consideration} = \text{Consideration} - (\text{Guaranteed Net Profit} - \text{Audited Net Profit}) \times 9$$

The difference between the Consideration and the Adjusted Consideration calculated in accordance with the formula above shall be paid by YY Holdings to Lee Shing in cash within 15 days after the date of issue of the 2003 Audited Report.

If the difference between the Audited Net Profit and the Guaranteed Net Profit shall be HK\$500,000 or less, or if the Audited Net Profit shall be equal to or greater than the Guaranteed Net Profit, no adjustment to the Consideration will be made. The Company will make further announcement if the Consideration has to be adjusted in accordance with the terms of the Acquisition Agreement.

The Consideration Shares represent approximately 21.18% of the existing issued share capital of the Company and approximately 17.48% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares based on the existing number of issued Shares as at the date of this announcement. Immediately after the allotment and issue of the Consideration Shares, the percentage shareholding of YY Holdings in the Company will increase from approximately 51.57% to approximately 60.04%.

Set out in the table below are the changes in the approximate shareholdings of the Company immediately before and after Completion.

Shareholders	Immediately before Completion		Immediately after Completion	
	Number of Shares held	Approximate percentage	Number of Shares held	Approximate percentage
YY Holdings	420,050,000	51.57%	592,550,000	60.04%
Public	394,403,059	48.43%	394,403,059	39.96%
Total	814,453,059	100%	986,953,059	100%

The issue price per Consideration Share represents a premium of 2.56% over the closing price of HK\$1.17 per Share as quoted on the Stock Exchange as at the date of the Acquisition Agreement, and a premium of 2.39% over the average closing price of HK\$1.172 per Share as quoted on the Stock Exchange for the 10 trading days up to and including the date of the Acquisition Agreement.

The Directors consider that the Consideration (including the issue price of the Consideration Shares) is fair and reasonable. The Independent Board Committee will be established for the purpose of advising the Independent Shareholders in relation to the fairness and reasonableness of the terms of the Acquisition Agreement. An independent financial adviser will be appointed to advise the Independent Board Committee in this respect.

Completion

Completion shall take place on the 5th Business Day after the fulfillment, or waiver, of the conditions to the Acquisition Agreement (or such other date as the parties may agree in writing).

INFORMATION OF THE DYNAMIC GROUP

Dynamic Goal is a company incorporated in the British Virgin Islands. It is an investment holding company which holds the entire equity interest in High Temperature Ceramics. So far as the Directors are aware, Dynamic Goal does not carry on any business other than its investment in High Temperature Ceramics.

High Temperature Ceramics is a wholly foreign owned enterprise established by a wholly owned subsidiary of YY Holdings (the "Initial Shareholder") in the PRC. The registered capital of High Temperature Ceramics amounts to HK\$30 million which has been fully contributed by the Initial Shareholder. In September 2003, the Initial Shareholder transferred the entire equity interest in High Temperature Ceramics to Dynamic Goal at a consideration equal to the registered capital of High Temperature Ceramics. As at the date of this announcement, no shareholder's loan is due from High Temperature Ceramics to Dynamic Goal or YY Holdings, and no shareholder's loan is due from Dynamic Goal to YY Holdings.

High Temperature Ceramics is principally engaged in the manufacture and sale of high temperature ceramics for industrial use, mainly for the manufacture of circulating fluidized bed boiler in electricity power industry in the PRC. The principal raw materials of high temperature ceramics include corundum grain material, corundum powder material, metal silicon powder, silicon carbide, oxidized alumina ultrahigh powder, silicon powder, steel fibre and alum clay.

The audited net profit both before and after taxation of High Temperature Ceramics for the period from 1 April 2002 (being the date of its establishment) to 31 December 2002 was approximately RMB9,338,000 (equivalent to approximately HK\$8,809,000) based on the PRC generally accepted accounting principles. No extraordinary items were recorded during the period from 1 April 2002 to 31 December 2002. Based on the management accounts of High Temperature Ceramics as adjusted in accordance with the Hong Kong generally accepted accounting principles for the nine months ended 30 September 2003, the unaudited net profit both before and after taxation and the unaudited net asset value of High Temperature Ceramics amounted to approximately RMB15,908,000 (equivalent to approximately HK\$15,007,000) and RMB55,395,000 (equivalent to approximately HK\$52,259,000) respectively. No extraordinary items were recorded during the nine months ended 30 September 2003.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the manufacture and sale of rare earth products and refractory products in the PRC. The refractory products are mainly applied in the petrochemical industry, metallurgy industry and the manufacture of cement kilns and glass melting kilns. The Acquisition will allow the Group to expand its product range to high temperature ceramics. Through diversification of products, the Group could expand and strengthen its sales and revenue base. 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.

Pursuant to the terms of the Acquisition Agreement, the Consideration will be satisfied in whole by the allotment and issue of the Consideration Shares. The Directors believe that such approach, on the one hand, will maintain the cash flow position and financial flexibility of the Group for the expansion of its existing business and the development of the high temperature ceramics business, and on the other hand, may well demonstrate the confidence of the controlling shareholder of the Company in the long term growth 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 Group and the Independent Shareholders as a whole. The Independent Board Committee will be established for the purpose of advising the Independent Shareholders in relation to the fairness and reasonableness of the terms of the Acquisition Agreement. An independent financial adviser will be appointed to advise the Independent Board Committee in this respect.

INCREASE IN AUTHORISED SHARE CAPITAL AND GENERAL

The Acquisition constitutes a discloseable transaction under Rule 14.12 of the Listing Rules. Given that the Consideration will be satisfied by the allotment and issue of the Consideration Shares and YY Holdings is a controlling shareholder of the Company, the Acquisition also constitutes a share transaction and a connected transaction for the Company under the Listing Rules, and is subject to the approval of the Independent Shareholders at the EGM and the disclosure requirements under Rule 14.26 of the Listing Rules.

Resolutions will be proposed, and if thought fit, passed at the EGM to approve the increase in the authorised share

capital of the Company from HK\$100,000,000 to HK\$200,000,000 by the creation of an addition of 1,000,000,000 Shares. The Directors have no present intention to allot and issue any new Shares other than the Consideration Shares and the Shares which may fall to be issued upon the exercise of the outstanding options granted under the share option scheme of the Company.

A circular containing, among others, details of the increase in the authorised share capital, the Acquisition Agreement, a letter from the Independent Board Committee and a letter from the independent financial adviser to the Independent Board Committee together with a notice to convene the EGM will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

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

“2003 Audited Report”	the audited financial statements of High Temperature Ceramics for the year ending 31 December 2003 prepared in accordance with the Hong Kong generally accepted accounting principles by a firm of auditors appointed by Lee Shing
“Acquisition”	the acquisition by Lee Shing of the Sale Shares from YY Holdings pursuant to the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 19 December 2003 entered into between YY Holdings as the vendor and Lee Shing as the purchaser in relation to the Acquisition
“Audited Net Profit”	the net profit after tax and before extraordinary items of High Temperature Ceramics for the year ending 31 December 2003 as shown in the 2003 Audited Report
“Business Day”	a day (other than a Saturday) on which banks in Hong Kong are generally open for business
“Company”	China Rare Earth Holdings Limited 中國稀土控股有限公司, 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”	HK\$207,000,000, being the purchase price of the Sale Shares payable by Lee Shing to YY Holdings
“Consideration Shares”	an aggregate of 172,500,000 new Shares to be allotted and issued by the Company to YY Holdings as settlement of the Consideration payable by Lee Shing to YY Holdings
“Directors”	the directors of the Company
“Dynamic Goal”	Dynamic Goal Worldwide Inc., a company incorporated on 31 May 2000 in the British Virgin Islands with limited liability
“Dynamic Group”	Dynamic Goal and High Temperature Ceramics
“Group”	the Company and its subsidiaries
“EGM”	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereby
“Guaranteed Net Profit”	HK\$23,000,000
“High Temperature Ceramics”	無錫泛亞高溫陶瓷有限公司 (Wuxi Pan-Asia High Temperature Ceramics Co., Ltd.), a wholly foreign owned enterprise established in the PRC on 1 April 2002 with limited liability
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the board committee comprising the two independent non-executive Directors, namely Messrs Liu Yujiu and Huang Chunhua, Charles, established by the board of Directors for the purpose of advising the Independent Shareholders in relation to the Acquisition
“Independent Shareholders”	Shareholders other than YY Holdings and its associates (as defined under the Listing Rules)
“Lee Shing”	Lee Shing Holdings Limited, a wholly owned subsidiary of the Company and a company incorporated in the British Virgin Islands with limited liability
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longstop Date”	the 120th day after the date of the Acquisition Agreement or such other date as the parties may agree in writing
“PRC”	the People’s Republic of China
“Sale Shares”	two ordinary shares of US\$1.00 each in the share capital of Dynamic Goal, representing its entire issued share capital, to be acquired by Lee Shing from YY Holdings pursuant to the Acquisition Agreement
“Shareholders”	holders of the Shares
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollar, the lawful currency of the United States of America
“YY Holdings”	YY Holdings Limited, a controlling shareholder of the Company and a company incorporated in the British Virgin Islands with limited liability
“%”	per cent.

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

Hong Kong, 19 December 2003

For the purpose of this announcement, translations of Renminbi into Hong Kong dollars or vice versa have been calculated by using an exchange rate of HK\$1.00 = RMB1.06.