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CHINA RARE EARTH HOLDINGS LIMITED

中國稀土控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Directors:

Mr. JIANG Quanlong (*Chairman*)
Ms. QIAN Yuanying (*Deputy Chairman*)
Mr. FAN Yajun
Ms. TO Siu Mui, Annie

Mr. LIU Yujiu*
Mr. HUANG Chunhua*

* *Independent non-executive directors*

Registered Office:

Century Yard, Cricket Square
Hutchins Drive
George Town, Grand Cayman
British West Indies

Principle Place of Business:

Room 618, Hutchison House
10 Harcourt Road
Central, Hong Kong

26 April, 2002

To the Shareholders

Dear Sir or Madam,

**GENERAL MANDATES TO
ISSUE AND TO REPURCHASE SHARES**

INTRODUCTION

With reference to the notice of annual general meeting of China Rare Earth Holdings Limited 中國稀土控股有限公司 (the “Company”), published on 19 April, 2002, the Annual General Meeting (the “Annual General Meeting”) will be held on 31 May, 2002.

An ordinary resolution will be proposed in terms set out in Resolution 5B of the notice of the Annual General Meeting for the renewal of the general mandate to the Directors of the Company (the “Board”) to exercise the powers of the Company to repurchase shares of the Company (“Shares”) up to a limit of 10 per cent in aggregate of the Company’s issued share capital at the date of passing the resolution. The mandate allows the Company to make purchases only during the period ending on the earliest of the conclusion of the next annual general meeting of the Company, the date by which the next annual general meeting of the Company is required to be held by its Memorandum and Articles of Association or any applicable law or the date upon which such authority is revoked or varied by an ordinary resolution of the shareholders in a general meeting of the Company.

This is the explanatory statement required to be sent to shareholders under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) contains information reasonably necessary to enable you to make an informed decision on whether to vote for or against the relevant resolutions at the respective Annual General Meeting.

GENERAL MANDATE

To Issue Shares

At the Annual General Meeting, an ordinary resolution will be proposed to give the Board a general and unconditional mandate (the “Issue Mandate”) to allot, issue and deal with additional Shares representing up to 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date the Resolution is passed. In addition, if the resolution to authorise the repurchase of Shares is passed, an ordinary resolution will be proposed to authorise the Board to allot, issue and deal with additional Shares up to an amount equal to the aggregate nominal amount of the share capital purchased under the authority to repurchase. In accordance with the Listing Rules, the Company may not make a new issue of Shares or announce a proposed new issue of Shares for a period of 30 days after any purchase by it of Shares without the prior approval of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

To Repurchase Shares

At the Annual General Meeting, an ordinary resolution will also be proposed whereby the Board will be given a general and unconditional mandate (the “Repurchase Mandate”) to repurchase on the Stock Exchange, Shares in the Company up to a maximum of 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date the Resolution is passed.

The Issue Mandate and the Repurchase Mandate would continue in force until the first occurrence of either the conclusion of the next annual general meeting of the Company unless it is renewed at such meeting or the expiration of the period within which the next annual general meeting of the Company is required by the Cayman Islands Companies Law or it is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

SHARE CAPITAL

As at 25 April, 2002, being the latest practicable date prior to the printing of this circular (the “Latest Practicable Date”), the issued share capital of the Company comprised 814,453,059 Shares of HK\$0.10 each.

Subject to the passing of the proposed resolution and on the basis that no additional Shares are issued or repurchased prior to the Annual General Meeting, the Company will be allowed under the Repurchase Mandate to repurchase a maximum of 81,445,305 Shares.

REASON FOR REPURCHASE

The Board believe that the proposed mandate is in the best interests of the Company and its shareholders. Such repurchase may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or earnings per Share of the Company and will only be made when the Board believe that such a repurchase will benefit the Company and its shareholders.

FUNDING OF REPURCHASES

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its Memorandum and Articles of Association and the Cayman Islands Companies Law. The Cayman Islands Companies Law provides that the amount of capital repaid in connection with a share repurchase may only be paid out of either the capital paid up on the relevant shares, or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. The amount of premium payable on a repurchase may only be paid out of either the funds of the company that would otherwise be available for dividend or distribution or out of the share premium account of the company.

There might be an adverse impact on the working capital or gearing position of the Company as compared with the position disclosed in the audited accounts contained in the Annual Report for the year ended 31 December, 2001 in the event that the repurchase of Shares was to be carried out in full at any time during the proposed repurchase period. However, the Board do not propose to exercise the repurchase of Shares to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Board are from time to time appropriate for the Company.

SHARE PRICES

The highest and lowest prices at which the Shares have been traded on the Stock Exchange during each of the twelve months preceding the Latest Practicable Date were as follows:

Month	Highest HK\$	Lowest HK\$
2001		
April	1.69	1.26
May	3.075	1.64
June	3.125	2.05
July	2.85	1.75
August	2.10	1.58
September	1.92	1.33
October	2.25	1.77
November	2.275	1.96
December	2.35	2.00
2002		
January	2.20	1.60
February	2.10	1.87
March	2.325	1.98

UNDERTAKING

The Board have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the powers of the Company to make repurchases pursuant to the Repurchase Mandate and in accordance with the Listing Rules and the Cayman Islands Companies Law.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, their associates, have any present intention to sell any Shares to the Company or its subsidiaries under the Repurchase Mandate if such resolution is approved by the shareholders.

No connected persons (as defined in the Listing Rules) have notified the Company that they have a present intention to sell Shares to the Company or its subsidiaries, or have undertaken not to do so, in the event that the Repurchase Mandate is approved by the shareholders.

HONG KONG CODE OF TAKEOVERS AND MERGERS

If on the exercise of the power to repurchase Shares pursuant to the proposed resolution, a shareholders' proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 32 of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). As a result, a shareholder or group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Takeovers Code.

As at the Latest Practicable Date, YY Holdings Limited* was beneficially interested in 420,050,000 Shares, representing approximately 51.6% of the issued share capital of the Company. In the event that the Board should exercise in full the repurchase mandate, the shareholding of YY Holdings Limited will be increased to approximately 57.3% of the issued share capital of the Company.

The Board are not aware of any consequences which may arise under the Takeovers Code as a result of any repurchases made under the proposed resolution.

**Note:* YY Holdings Limited is held by the trustee of the Jiang family trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying and her children.

SHARES REPURCHASE MADE BY THE COMPANY

The Company has not repurchased any Shares (whether on the Stock Exchange or otherwise) in the six months preceding the Latest Practicable Date.

Yours faithfully,
JIANG Quanlong
Chairman