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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

*Principal Place of Business  
in Hong Kong:*

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

8 July 2003

*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 26 June 2003 the Annual General Meeting (the “Annual General Meeting”) will be held on 8 August 2003 at Basement II, The Boardroom, The Wharney Hotel, Hong Kong, 57-73 Lockhart Road, Wanchai, Hong Kong at 10:30 a.m..

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 Shares on the Stock Exchange 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 its Memorandum and Articles of Association or any applicable law to be held or it is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

## **SHARE CAPITAL**

As at 8 July 2003, 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

Repurchase must be funded out of funds which are legally available for the purpose in accordance with the Memorandum and Articles of Association of the Company and the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). As listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands law, repurchases by the Company may only be made out of profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its Articles of Association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the Company or out of the Company’s share premium account, or, if so authorised by its Articles of Association and subject to the provisions of the Companies Law, out of capital.

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 2002 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:

<b>Month</b>	<b>Highest HK\$</b>	<b>Lowest HK\$</b>
<b>2002</b>		
July	1.850	1.360
August	1.590	1.120
September	1.170	0.700
October	0.940	0.600
November	0.900	0.770
December	0.980	0.820
<b>2003</b>		
January	1.160	0.860
February	1.300	1.030
March	1.210	0.900
April	0.970	0.420
May	0.810	0.465
June	0.750	0.620

## 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 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, the deputy chairman of the Company, 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*